On May 12, 1902, a loan of $4,000 was made to Thomas Crawford, the president, on his demand note, without other security. Mr. Crawford had then an overdrawn bank account. He says the suggestion came from Mr. Spence and that he acted upon it without proper consideration. Mr. Spence denies that the suggestion came from him and lays the blame upon Mr. Crawford. The cheque for the loan was signed by both of them in their official capacities. When the loan was repaid seven months later, a lump interest allowance of $100 was proposed by Mr. Crawford and accepted by Mr. Spence. This was less than 4½ per cent.

Mr. Crawford was also president of the Provincial Building and Loan Association. Its debentures had been offered for deposit with the Superintendent of Insurance for Ontario and had been refused by him. It was practically admitted by both Crawford and Spence that they were not a proper security. Later, Crawford proposed an investment of $5,000 in the same debentures. Spence consented and the investment was made. These debentures were sold in 1905.

THE SOVEREIGN LIFE ASSURANCE COMPANY OF CANADA.

This company was incorporated in 1902 by Dominion Act, 2 Ed. VII. cap. 102, with a capital of $1,000,000. The stock was at first issued at a premium of 25 per cent, with 20 per cent call, making $25 payable on each share. After about $50,000 had been subscribed on that basis the call was increased to 25 per cent, making $26.25 payable on each share, and after $500,000 of capital had been subscribed the premium was raised to 33⅓ per cent, and the last $258,000 was subscribed at a premium of 50 per cent. All the capital had been subscribed by December 31, 1905, and the shareholders had paid in $225,595.68 on capital account and $87,313.14 as premium. There was a slight impairment of capital at that date, the three years' operations having cost the company $90,000.

The prospectus on which the stock was sold was prepared by Mr. A. H. Hoover, who promoted the company and afterwards became its president and manager. It set out prominently the names of sixteen persons under the heading 'Board of Directors,' and stated they would be in close touch with the management and the administration of the company's affairs and would have a substantial interest in building up a strong and prosperous company, having subscribed for a large amount of stock. Six of the persons named did not become permanent directors of the company. Some of them never subscribed for any shares, and it is doubtful whether they ever gave Mr. Hoover permission to use their names. The prospectus also intimated that the directors were taking a deep interest in selecting a suitable manager, when the fact was that the manager was taking a deep interest in selecting a suitable board. Referring to the management of the company the prospectus said:—

> 'That a life insurance company based upon sound and proven calculations and managed with common honesty cannot fail, but that in order to obtain the most lasting and profitable results, a capable, shrewd, and far-seeing head is necessary, were the two facts recognized by the directors in seeking a man who would be equal to the demands which such an office would entail. The combined requisites of complete knowledge and experience, business judgment and acumen, unimpeachable integrity, and a capacity for strenuous and fruitful work, all necessary for such a position, were felt by the directors to be exceedingly difficult to obtain, but it is with exceeding gratification that they find themselves in a position to announce that they have succeeded in retaining a man who in an eminently noteworthy degree possesses all of these qualifications.'

This was entirely misleading in that it indicated that the directors had seriously concerned themselves in the selection of a manager, that they had exercised a real choice and had put the interests of the company before all other considerations, whereas

the company was promoted and created by Mr. Hoover that he might become the manager of it, the directors merely carrying out the arrangements he proposed.

Section 4 of the Act of incorporation provided that so soon as $250,000 of capital stock was subscribed and 10 per cent thereon paid into a bank the provisional directors should call a general meeting of the shareholders at which the shareholders present in person or by proxy, who had paid 'not less than 10 per cent on the amount of shares subscribed for by them' should elect a board. On December 9, 1902, a notice was given calling the general meeting for December 22. Subscriptions for $250,000 had not then been received, but on December 20, 1902, Mr. Hoover, in order to complete the subscription, personally subscribed for 408 shares, intending that they would be issued to persons from whom applications were subsequently received by agents employed to sell stock. After the notice had been given and before the meeting, the provisional directors purported to adopt by-laws, and a form of contract with Mr. Hoover was prepared by the company's solicitor. The notice calling the meeting did not state that the proposed contract would be submitted for approval.

The meeting was attended by shareholders in person representing 839 shares, of which Mr. Hoover held 533. He also held proxies authorizing him to vote on 1,019 other shares. The fact that he had subscribed for a large number of shares was referred to in the report of the provisional directors, submitted to the shareholders' meeting, but no mention was made of the fact that 408 were subscribed two days before the meeting under the circumstances above stated, nor of the fact that he had not then paid anything on any of the 533 shares standing in his name, and was not qualified to vote thereon at the meeting.

The meeting purported to ratify the by-laws submitted by the provisional board.

By-law 3, section 3, prescribed a form of proxy for shareholders, in which blanks were left for the names of two persons, the second to act in the absence of the first.

Section 4 of the same by-law prescribed a form of proxy for policyholders, substantially in the same form as the other proxy except that it contained the following clause:—

> 'This proxy shall be valid and effectual and shall continue in full force from the date hereof and until at least 30 days after a notice in writing expressly revoking or suspending same shall have been delivered to the manager of the company.'

Proxies were required to be filed with the manager at least ten days prior to the meeting, and proxies to agents and provisional managers or inspectors, not being directors, were forbidden.

By-law 4 required nominations to be made in writing and filed with the manager or secretary, thirty days before the election, none but qualified shareholders so nominated being eligible. It also authorizes the board, at any meeting, to elect any qualified shareholders to be a director until the next annual meeting, provided that the whole number, including the new directors, should not exceed twenty-five.

By-law 6 gave the manager authority, from time to time subject to the approval of the committee, to appoint officers, agents and servants, prescribe their duties, fix their remuneration and remove them.

By-law 8, section 5, provided that the manager, if a qualified shareholder, might be a director, that his salary should be $2,500 per annum and that a commission or a renewal interest of $1 for each $1,000 of insurance in force at the end of each year, should be paid to him, his executors, administrators or assigns, so long as any of the insurance remained in force.

Instead of obtaining shareholders' proxies in the prescribed form, Mr. Hoover incorporated into the form of share subscription a proxy clause appointing himself, for all meetings at which the shareholder should not be present. By this means the subscriber was committed to Mr. Hoover as his proxy from the moment he became a shareholder. Only one or two subscribers struck out or amended this clause, with the

result that Mr. Hoover has always represented practically all the absent shareholders. His representations of all the absent policyholders who gave proxies was just as complete. Attached to the form of notice of the annual meeting was a policyholder's proxy, by which the policyholder appointed Hoover his proxy, containing the by-law provision maintaining the proxy in force for thirty days after notice of revocation.

The shareholders' proxies, with his own shares, his right to vote which does not seem to have been questioned, gave him control of the organization meeting; and the practically perpetual proxies of shareholders and policyholders, coupled with the jurisdiction over agents, which the by-laws give him, the prohibition against their becoming proxies and the requirement that all proxies must be filed at the head office at least ten days prior to any meeting enable him to continue in control indefinitely.

At the organization meeting the proposed form of contract with Hoover was adopted. It amplified the provision contained in by-law 8, section 5. Should he cease to be manager his commission or renewal interest of $1 per $1,000 on insurance undertaken by the company during his management, including any insurance written in revival or substitution thereof, was to continue so long as any portion thereof remained in force. No definite term of employment was fixed, but the directors, after six years, were graciously permitted to give him a six months' notice that at the next general meeting of shareholders and policyholders a motion would be made to terminate the engagement. If during the six months Mr. Hoover's proxies were revoked in sufficient numbers, and if the motion were carried, his commission or renewal interest of $1 per $1,000 of insurance was not to be affected but was to continue so long as any of the insurance remained on foot. Neither dismissal, resignation nor death could put an end to this provision. In its enforcement Mr. Hoover has under the contract the right, although dismissed for cause and although he were the manager of a rival company, to inspect the policy registers and books of account at any time during the lifetime of the last survivor of all the persons who were policyholders when he ceased to be manager.

It is quite clear that Hoover's interests were the paramount consideration with him. There is no satisfactory proof that either the provisional directors or the shareholders had the provisions of this extraordinary contract brought to their attention or that they were ever alive to its consequence. It seems impossible to think that if they had understood what obligations were being imposed they would ever have assented to it. Section 4 of the Act of incorporation provides that

> 'the provisional directors shall call a general meeting......at which meeting the shareholders present...... shall elect a board.'

The meeting being called for a specific purpose, before the company has been fully organized or is authorized to carry on business, it is questionable whether any business can be transacted at such meeting other than that mentioned in the Act. Assuming that other matters can be dealt with, it would seem that they should be expressly referred to in the notice calling the meeting. Shareholders might be justified, in the absence of such notice, in assuming that the organization meeting was a mere compliance with section 4. No reference was made to the manager's contract in the notice calling the meeting in question, and it appears to be very doubtful whether the action of the shareholders purporting to adopt the agreement is binding on the company.

A printed circular was issued to the shareholders which professed to contain a copy of the report of the provisional directors submitted at the organization meeting but Mr. Hoover's contract, which formed part of that report, was altogether omitted from the circular. Nor was it intended to disclose the contract to the Commission. Pursuant to the requisition of the Commission copies of the minutes were professed to be furnished but such copies omitted the minutes of the organization meeting where the contract was set out in full. And in furnishing copies of the company's by-laws

the portion of by-law 8, section 5, which sets out briefly the terms of the contract, was also omitted. As to the first omission, Mr. Hunter, the solicitor who advised it, attempts to account for it by an alleged misinterpretation of the requisition, as to the second he says he prepared the by-law in question and never intended it to contain the clause.

Your Commissioners cannot accept either explanation. The requisition clearly called for by-laws or other authority for the payment of salaries, commissions or other remuneration and was too clear to be misunderstood. Your Commissioners cannot but conclude that a deliberate attempt was made by the concerted action of the manager and solicitor of the company to prevent the contract coming to the knowledge of the Commission.

The view is strengthened by a mutilation in the copy furnished to the Commission of the minutes of another meeting held after the Dominion license was issued, and relating to the matter about to be discussed.

Section 5 of the Act of incorporation provided that the company should not commence business until $62,500 of capital was

> 'paid in cash into the funds of the company to be appropriated only for the purposes of the company under this Act; provided further that the amount so paid in by any shareholder shall not be less than 10 per cent upon the amount subscribed by such shareholder.'

In January, 1903, the company applied for a Dominion license, filing the affidavit of A. H. Hoover, the president, stating that the company had

> 'complied in all respects with the requirements of sections 4 and 5 of its Act of incorporation,'

and an affidavit of the company's bookkeeper, verifying a list of the shareholders and stating that

> 'the said list correctly shows the amount of capital stock subscribed for and the amount paid in thereon by each of the said shareholders respectively.'

The list attached set out the names of the subscribers to January 23, 1903, and in appropriate columns indicated that the amount paid by each subscriber was at least 25 per cent of the amount subscribed, the totals being $256,500 subscribed and $62,735 paid in. The shareholders had not, however, in all cases paid in cash to the company the amount represented as paid up on their shares. Many of them had given promissory notes, and others had not given either notes or cash. In order to provide the cash deficiency, a directors' note was discounted with the Imperial Bank on January 23, 1903, and the proceeds, $29,000 were placed to the credit of the company's account. The amount actually paid by shareholders at January 23, 1903, was less than $38,000.

The proceeds of the directors' note were treated as a loan to the company, and the accounts of the different shareholders who had not paid in cash prior to January 23, 1903, were treated exactly as if the directors' note and its proceeds had never existed. In fact many of the shares upon which by the fictitious application of these proceeds, according to the return, the full call of 25 per cent had been paid in cash, were subsequently forfeited for non-payment of that very call.

Mr. Hoover, the president of the company, was shown by the same verified list to hold three blocks of shares, 78, 408 and 25, upon which, in the appropriate column, he was indicated as having paid $1,500, $10,200 and $625 respectively, making in all $12,325. At that time he had only paid $2,000. On being asked to explain this discrepancy, he stated that he had given a note to the company for the amount, which was not produced. The evidence as to the existence of the note was unsatisfactory. It was said to have been kept in the cash box without any entry whatever appearing in any of the books, and, according to the evidence of Mr. Allen, the bookkeeper, it was in the cash box before the 408 shares were subscribed for at all, so that it could not have anything to do with the payment on them.

Moneys received on other stock subscriptions were applied in reduction of the directors' note, until wiped out. Thereupon the note was produced by the manager at a meeting of the directors, and was ordered to be destroyed. The minutes of this meeting were copied for the Commission, but the portion relating to the destruction of the note was omitted by the express direction of the company's solicitor, and would not have been discovered had production of the original minute book not been required.

On incorporation, the company issued a confidential circular, offering 100 special 'stock' policies. The amount to be insured was $5,000, increasing by $250 with each premium paid. In the event of death in the first year, $5,250 was to be payable; in the second year, $5,500, and so on, until 15 payments were made, when the policy would become paid up at $8,750. Later, a further circular was issued, offering another 100, but substantially increasing the premiums. He, Hoover, took out a policy on his own life under the first circular, on which the premium was $407.75. Under the second circular the premium would have been $441.79. Both circulars stated that the policies were not intended as a source of profit, but were offered as a favour to a few business and professional men in return for their influence in establishing the company's business.

The premiums under the first circular were altogether too low. They will probably be a source of loss to the company. The actuary thought that if there were absolutely no expense connected with them they might carry themselves. In any event there will be no profit, and they seem to have been offered to induce people to become shareholders in consideration of obtaining insurance at cost.

As another means of interesting prominent men in different parts of the Dominion, the company solicited certain persons to insure with the understanding that they would be made 'provincial' directors. Ten per cent of the first year's premiums upon business written within the particular province was to be set aside for ten years, and to be distributed among these 'provincial' directors. At the date of the inquiry there were 'provincial' boards in New Brunswick, Nova Scotia, Prince Edward Island and Manitoba, and several 'county' boards in Ontario. It is needless to say that the gentlemen composing them had nothing to do with the direction of the company. It was contended that as the amount paid these directors was deducted from the commissions payable to agents there was no loss to the company. This argument merely turns the transaction into a rebate forced upon the agent.

THE UNION LIFE ASSURANCE CAMPANY.

The business of this company is almost entirely of the industrial class. It has an interesting but peculiar origin and history. The North American Insurance Company in the year 1900 had a branch known as the 'Provident Branch,' the business of which was the writing of industrial insurance upon the basis of monthly premiums. Mr. H. Pellman Evans was the manager of the branch. The volume of provident or industrial insurance on foot was about $800,000, and the monthly premium income, which is technically known as the monthly debit, was between $600 and $700. Mr. Evans was anxious that the operations of the branch should be extended outside Toronto, to which city they were then confined. The company, on the other hand, was not minded to make such extension. With the object of forwarding his views upon the subject, Mr. Evans associated with him in the promotion of a company four other gentlemen, Mr. Harry Symons, Mr. Buchanan, Mr. Plummer and Mr. Crispo, Mr. Evans and Mr. Symons being the prominent and active promoters. The company they formed was the National Agency Company. A charter was obtained in January, 1901, under the Ontario Companies Act. The sole object of incorporation stated in the Letters Patent, was 'to act as a managing agent for any insurance company that stands registered as such under the Ontario Insurnce Act.'

The capitalization authorized was $100,000, and the charter required the company, under pain of cancellation of the Letters Patent, to notify the Provincial Secretary of the name of any company whose management it undertook.

In the course of working out his plans, Mr. Evans had arranged in the preceding November with the North American Life, for a transfer to the proposed company, which was then intended to be capitalized at $25,000, of the business of the provident branch as a going concern, and on November 7 an agreement was prepared and executed accordingly. It was an onerous agreement for the National Agency Company. There was to be a payment in cash of seven times the monthly debit or premium income. Inasmuch as the North American Life was still to issue the policies, the Agency Company having no corporate powers in that behalf, the former required not only an indemnity but a substantial money consideration. It was to be paid $2 for every $1,000 of new insurance written, and it was to retain in its own hands the security for its indemnity, in the shape of the reserve upon all the insurance liabilities. These reserves were to be released as the policies lapsed, or matured and were taken care of by the Agency Company, but meantime all profits arising out of their investment belonged to the North American Life. The excess of premium income over expenses and reserves was to be first devoted to the payment of a 10 per cent dividend to the shareholders of the Agency Company, who, it was intended, should be the trustful and confiding public, and, inasmuch as a free subscription of stock was of the very essence of the plan, it was imperative that the stock should from the beginning pay dividends. After paying these dividends, 20 per cent of what was left of the profits was to be paid to the North American Life for five years, 25 per cent in the sixth year, 30 in the seventh year, 35 in the eighth year and 40 in the ninth year, at which the percentage was to become stationary, and it was apparently to continue to be payable in perpetuity.

The acceptance and carrying out of this agreement would appear to have been *ultra vires* of the National Agency Company. It involved the taking over and ownership of the provident branch as a going concern, the appointment and payment of all agents, canvassing all insurance, actually writing all policies, receiving all premiums and indeed everything except the mere signing of the policies issued.

On January 2, 1901, Mr. Evans, trustee for the proposed company as he was, transferred the agreement to the National Trust Company. The only reason for doing so that is suggested upon the face of the transfer itself is the provision by which the Trust Company, when handing over the Trust property to the new company, was to hand it over subject not only to an undertaking by the new company to perform all the terms of the original agreement, but also to a charge of $4,000 in Evans' own favour. This was justified as promotion expenses, including commissions on the sale of stock, but its plain tendency was to prevent the company from dealing independently with its trustees.

Mere incorporation did not enable the agreement to be carried out, and time was extended until the following August. In the interval, subscriptions to the stock were being solicited. On August 7, the transaction was consummated in an agreement between the North American Life and the Agency Company, the terms of which are substantially the same as those of the agreement of the preceding November. Mr. Evans was president of the new company and Mr. Symons secretary. The other promoters do not seem to have had much, or indeed anything to do with organization or operation.

It was not long before it was found desirable to get rid of this onerous contract and substitute some more satisfactory working scheme. The method devised was ingenious. Industrial insurance is an investment which is long in ripening. The actuary who advises the Union Life and who is a member of its board, is also the actuary of the Colonial Life Insurance Company, a large industrial insurance company doing business in the United States. Before his connection with that company he was connected with the London Prudential, a large British industrial company. He has also

been connected with the Metropolitan of New York, also a large industrial company, and is well qualified to speak upon the subject. His statement is that even in a properly conducted and successful company no returns to shareholders can be expected for many years. Of the Colonial he says that its shareholders are wealthy men and were made quite aware of the conditions attending the investment before they subscribed for the stock, and were willing to have the investment lie fallow for a long term of years in the hope of having it yield richly in the end. When Mr. Evans and Mr. Symons incorporated the Agency Company, therefore, this was the nature of the investment which was to be offered to the public.

The persons whom they sought to interest were not persons who wished to lock up their moneys in fallow securities, and were not informed that their contributions were to remain invested for many years without any return. On the contrary, the very problem was to pay regular and substantial dividends to the investors upon the one hand, while upon the other, the capital funds must not show impairment.

The incorporation of the Union Life offered an excellent opportunity of experimenting with this fallacy. The whole capital stock was to be subscribed by the Agency Company, save a few qualifying directors' shares, for which indeed the Agency Company was also to pay. It was to be subscribed at a large premium, to assist in avoiding the appearance of impairment. The shareholders in the Agency Company had subscribed for the shares of that company at a premium also. The scheme involved increasing the capital of the Agency Company, thus raising large sums from time to time, to be devoted to the maintenance and development of the business of the insurance company, until that distant period at which returns might be expected.

After negotiations with the North American Life for a transfer of the obligations of the Agency Company to the proposed new insurance company, the promoters obtained an Act of Parliament, 2 Ed. VII., cap. 109, on May 5, 1902, incorporating them under the name of 'The Union Life Assurance Company,' with a capital of $1,000,000. The Act required $[illegible]50,000 capital to be subscribed and 10 per cent paid in cash before organization, and authority was conferred, after subscription and payment of the whole capital, to increase it to $2,000,000.

All the directors of the Union Life were directors of the Agency Company. Mr. Symons became the president and Mr. Evans its secretary. There were seven directors in all, and they were furnished the statutory qualification, 25 shares each, out of the funds of the Agency Company.

In the meantime the Agency Company, which in November, 1900, had proposed to do its modest business of insurance agent on the modest capital of $25,000, and which in its charter had obtained the authorization of $100,000, had on August 28, 1901, obtained the necessary authority to increase its stock to $500,000. It may be added that in August, 1905, a by-law was passed authorizing its further increase to $750,000, but that increase has not taken place.

On July 16, 1902, the Agency Company transferred the provident business to the newly incorporated Union Life. The conveyance recited that the Agency Company had acquired that business, had been managing and extending it and had made considerable expenditure in connection therewith,

'all of which form a valuable asset in the hands of the Agency Company.'

It then proceeded to fix the value of this asset at $34,732.05, being fifteen times the monthly premium income, or monthly debit, of $2,315.47. This is an arbitrary method of measuring values, and is peculiar to industrial insurance. It may be that in the case of an old, well grown and well established business, values may fairly enough be so measured. When the Agency Company purchased the same asset from the North American Life, the monthly debit was multiplied by seven instead of by fifteen. This shows how purely arbitrary such a method necessarily is.

The agreement also transferred the reserve then held by the North American Life, amounting to $8,078.63.

The stock subscription was dealt with by the same agreement. The Agency Company was to subscribe for the whole of the stock of the Union Life and to pay 10 per cent or $100,000 upon it. There was also to be paid a premium of 5 per cent or $50,000. The business and reserve handed over were to be taken in part payment at the figures mentioned above.

The Union Life was given power to call a further 5 per cent premium, but it was provided that the 5 per cent limitation upon this power

> 'shall not preclude the Agency Company from contributing any further sums to the Union Company at any time on premium account if it shall see fit so to do.'

The draftsman, no doubt, foresaw that more than a total premium of 10 per cent might be swallowed up before the business could begin to carry itself without showing impairment of capital.

The agreement which has since ostensibly regulated the relations between the Union Life and the Agency Company was made on the same day. The original was produced on the inquiry, and Mr. Evans was examined upon it. There were two important corrections subsequently made by endorsement upon it, which are, it is declared, to be treated as having always been part of it. As they are called 'corrections,' there is no reason to doubt that they always were in reality part of the agreement, but were omitted from the original writing by error.

All moneys expended by the Union Life (outside of head office expenditure) are, by the agreement, to be deemed to be paid out for the Agency Company. In practice the Union Life employs and pays the agents, and the Agency Company takes no part in operating the business.

The Agency Company is, under the agreement, to receive commissions as though it really were a working agent. This is the source out of which ready money is found to pay its shareholders their dividends, though the annual and other statements of that company treat it as in a condition to pay dividends by reference to a number of assets, more or less real. This provision for dividends is made sacred by another paragraph, which prevents the Union Life from looking to the Agency Company, under the other clause referred to, to be reimbursed any excess of its agency expenditure beyond 80 per cent of the commissions, so that 20 per cent must always be paid to the Agency Company, regardless of the actual expenditure. In practice the expenditure has always been at least 150 per cent of the commissions, but for the difference between that and 80 per cent the Union Life has no recourse against the Agency Company. The commissions themselves are liberal, in view of the fact that no work is performed for them —50 per cent of the whole premium income of the weekly and monthly business of the provident branch, 100 per cent of the first year premiums, and 30 per cent of the renewal premiums in provident branch business other than weekly or monthly, and 90 per cent of the first year premiums and 10 per cent of the renewal premiums in general branch business.

Having thus secured a continuous, immediate surplus of cash with which to keep themselves in countenance with the shareholders of the Agency Company, the gentlemen who manage both companies and were on both sides of the agreement, next turned their attention to the other side of the question, the danger of impairing the capital of the Union Life. This they arranged by providing that no commissions should be paid to the Agency Company which should result in reducing policyholders' surplus in the Union Life below $100,000, the amount of capital paid in by the Agency Company, though by no means all the money with which the shareholders of that company have continued to maintain this industrial asset.

With these nicely balanced clauses, with a substantially identical directorate, with the management of both really vested in the two gentlemen, Mr. Evans and Mr. Symons, the Union Life Company and the National Agency Company embarked upon their joint adventure.

The adventure was joint and the interests involved were the same. The shareholders of the Agency Company were the persons really concerned in the welfare of both companies, and as they have paid for Union Life stock $100,000, and in premiums thereon the sum of $425,000, it is proper to trace the joint history from their standpoint. How has the business transferred to the Union Life on July 16, 1902, and then valued at $34,732.05, for the business and goodwill and $8,078.63, the reserve, a total of $42,810.68, become transmuted into an asset for which these shareholders have been induced to make these payments? What considerations have moved them? What inducements have been held out?

The necessity of paying them dividends has never been lost sight of by those in management, especially in view of the fact that nearly all the stock has been allotted at a premium, some at 125 and some at 150. The members of the executive committee, Mr. Evans, Mr. Symons and Dr. Millichamp, it is true, on October 22, 1902, allotted shares to themselves at par by the same minute by which a large number of applicants were awarded allotment at 125, justifying themselves under a resolution of the shareholders of August 22, 1901, which required them to offer the new issue to old subscribers on the terms of their original subscription, and to offer them to the public at such premium as the board might determine if not taken within a month. But with these exceptions substantially the whole stock was subscribed at a premium.

When the time approached at which the shareholders might be expected to look for a dividend, it may be supposed that the management fully realized the occasion to be critical. This was in the early part of 1902, when the business was being carried on under the agreement with the North American Life. A statement was prepared, and the auditor's 'opinion' asked with regard to the propriety of a dividend. The assets, according to that statement, were $67,957.06, the liabilities, $61,812, and the surplus, therefore, $6,145.06. But among the assets were the following sums: Organization expenses, $4,000; contingent premiums, $19,500, and if they were improperly treated as assets, the surplus of $6,145.06 is turned into a deficit of $17,355.

The auditor in his opinion takes into consideration no dry questions of present assets and liabilities.

> 'The prospects of business for the next two months, taking the basis of the present business,'

are, in his view, the justification for the present dividend.

The question of including contingent premiums for dividend purposes was subsequently raised in the board, and a promissory note of the directors, by way of 'contribution to surplus account,' for the amount divided was prepared and signed. A fortnight later, at a special general meeting at which only one shareholder who was not a director was present, the note was cancelled and the directors released.

Inasmuch as contingent premiums are premiums not even earned, the impropriety of paying dividends out of them is manifest.

In all statements subsequently prepared, down to the acquisition of the shares of the Union Life, the contingent premium item occurs, and in each case of such an amount that, if it is deducted, the liabilities exceed the assets.

The method of preparing such statements was changed after the capital stock of the Union Life became the principal asset. It is scarcely necessary to examine minutely the different statements themselves. There are some differences in principle and in detail and in many respects they are open to criticism but the controlling factor which, in the opinion of your Commissioners, vitiates them all, is the value placed by them upon the investment in Union Life stock. At first it was valued at a sum equal to all the moneys, by way of capital and premium, that had been put in. But in 1905 even this method failed to show an excess of assets over liabilities, as will at once become apparent if $520,275 is substituted for $615,949.10 in that year's statement, the former being the sum of all capital and premium contributed, and the latter a new valuation intended to maintain the assets at such a figure as would ostensibly justify a dividend.

The method adopted was to take the apparent surplus shown by the returns of the Union Life, $110,000, and add to it a valuation placed upon the insurance business of that company. For the general branch, one whole year's premium income was thus added, $34,309.10, and for the provident branch the weekly debit, $3,628, was multiplied by 130, making $471,640. These three amounts make $615,949.10, which was the sum put forward as the value of the Union Life shares in 1905.

The Union Life pays no dividends, because it makes none, and in the ordinary course cannot for many years to come, even if it prospers. In truth the dividends received have been returned out of contributions.

The ability to extract moneys from the shareholders of the Agency Company is probably at an end and, no doubt realizing the approach of that condition, the management has issued debentures to the amount of about $160,000. Some of these have been sold, but their marketability was feeble, and they have been largely exchanged for other weak securities, which find their way into the government returns of the Union Life as investments of that company. Practically all the Union Life investments have been purchased from the Agency Company.

The company values its policies on the O$^{(m)}$ table with 3 per cent interest. It sets apart no reserve during the year in which policies are written, a practice followed by some other industrial companies. It is said that when applying for ordinary insurance the applicant makes a selection against the company, taking out the insurance when he has nearly reached his next birthday, but that there is no such selection by applicants for industrial insurance. As new policies in any year may be said to be issued on the average at the middle of the year, and as those insured under industrial policies are then a half year younger than the age charged for, it is said to follow that the insured reaches only on December 31, the age for his premium, and that no reserve is required earlier. The evidence of Mr. Harvey was strongly in favour of this method of valuation, but different views were expressed by other witnesses. Your Commissioners are of opinion that there is no sufficient distinction between industrial and ordinary insurance in this respect to warrant a different method of valuation.

The examination of the Union Life was concluded on May 11, 1906. Subsequently, the Commission directed that Mr. Symons be recalled. A transaction had occurred in June to which the Union Life, National Agency and Toronto Life Insurance Company were parties, that was made the subject of discussion in the public press. The Toronto Life was an Ontario corporation promoted by the York County Loan and Savings Company with a subscribed capital of 3,414 shares. The shareholders had contributed $73,216.58 capital and $41,988.80 premium, making together $115,205.44. In May, 1905, the National Trust Company, liquidator of the York County Loan and Savings Company then in process of being wound up, offered for sale 1,611 shares of the Toronto Life stock. To facilitate a sale the liquidator arranged with other shareholders for the right to include 276 other shares, making in all 1,887 shares, a clear majority. After negotiations through F. McPhillips, proprietor of an insurance journal, the whole were sold to the National Agency Company for $56,330.95, being 80 per cent of cash contributions. The agreement was made on June 2, 1906. One of its terms was that the liquidator should procure the resignations of four out of the five directors of the Toronto Life and the election of the purchaser's nominees in their places, and on the same day this was done, Symons, Millichamp, Evans and McGowan, directors of the Agency Company, filling the four vacancies. The new board on the same day made an agreement with the Union Life for the reinsurance of all the Toronto Life business. The Toronto Life agreed to cease business in Canada, and transferred to the Union Life its assets with some exceptions, but including all government deposits and reserves and the securities representing them. The Toronto Life policies were to be valued at 3 per cent, the market value of the assets ascertained, and the excess of the assets over the reserves so computed re-assigned to the Toronto Life in assets selected by the Union Life. Upon execution of the agreement the Union Life became entitled to and took full possession and control of the assets.

The insurance in force at the end of 1905 was $3,492,065, and the premium income for that year was $117.028.22. In the first four months of 1906, $24,692 new insurance was written, and $872,195 lapsed, leaving the insurance in force at May 1, 1906, $2,644, 562.

For this business the Union Life paid nothing. The Agency Company purchased control, and used its power to give away the company's assets. The insurance in force should have brought a fair return to the shareholders.

No computation of reserve was made, it was not intended to make any until December 31, 1906. In September, 1906, however, the shareholders of the Toronto Life were deprived of all interest in the valuation, their directors having given away the remaining assets to the Agency Company. They first provided for valuing the policies at 3½ instead of 3 per cent, and, having thus increased the surplus which was to be reassigned to the Toronto Life, gave it away to the Agency Company upon a professed consideration which was a mere pretence. This left the minority shareholders of the Toronto Life without any assets whatever. Under the agreement they were entitled to sell their stock to the Agency Company at 60 cents on the dollar in cash, or 80 cents on the dollar in debentures of the Agency Company, but if they declined to do so, they were without redress.

THE MONARCH LIFE ASSURANCE COMPANY.

This company was incorporated in 1904, by Act of Parliament, 4 Ed. VII., cap. 96. Its authorized capital is $2,000,000 which there is power to increase to $3,000,000 when $2,000,000 has been subscribed and $1,000,000 paid up. The incorporators were D. A. Gordon, Thomas H. Graham, George Stevenson, E. D. Brown, D. W. Livingstone, T. Marshall Ostrom and William Scott. Mr. Ostrom was the promoter. He commenced the work of organization in March, 1904, the Act of incorporation was assented to in July following and a license was obtained on July 19, 1906. The affairs of this company were before the Commission on September 4, 1906. At that time it had written very little insurance, and the inquiry was limited to its organization and establishment.

Stock was issued at a premium of $25 per share. The [illegible] premium and 10 per cent of the capital was called and made payable as follows; $15 cash on application, $15 in two months, and $5 in one year.

The form of application for shares provided that pending incorporation the first and second payments should be made to the Union Trust Company, Limited, which was authorized by the application to pay under the direction of a committee representing the subscribers and out of the premium on each share, such part of $7 as might be necessary for promotion and organization expenses. The committee consisted of T. M. Ostrom, T. H. Graham and A. W. Holmsted. Its first meeting was held on March 16, 1904, and thereafter it held weekly meetings of which formal minutes were kept. Mr. Holmsted resigned on May 11, 1904, in order that Mr. James Cochrane might be appointed, but he continued to act as secretary until July 13, 1904.

On the Act passing the subscribers' committee ceased to exist, and thereafter the provisional board held weekly meetings. On July 27, 1904, it purported to pass by-laws and appoint officers, including president, vice-presidents, managing director, general solicitor and counsel, medical director and an executive committee.

A meeting of the subscribers to the capital was held on December 7, 1904. At that date $246,700 had been subscribed and $14,155 paid, besides $24,721.50 on premium, making a total of $37,476.50. This, however, included the following unpaid cheques, the stock certificates being withheld until the cheques should be cashed: T. H. Graham, $3,500; Mrs. M. F Fife, secretary, $3,500; T. M. Ostrom, $3,500; William Scott, $700; Hon. James Cochrane, $4,500; Dr. Forbes Godfrey, $750; D. W. Livingstone, $3,500; S. H. Davis, $3,500; D. A. Gordon, $250; a total of $23,700.

The Act required $250,000 stock to be subscribed and 10 per cent of it to be paid up before holding the meeting, and neither requirement had been complied with. It was also said that proper notice was not given. The meeting was, therefore, incompetent. Its proceedings were ultimately disregarded, and another was held on March 21, 1906. Meantime, the management had been in the hands of the board of directors elected at the illegal December meeting, and of an executive committee appointed by it.

The minutes of the second meeting indicate that 5,975 shares were then subscribed and $40,810 paid, besides $73,538 on premium. The meeting appointed directors, adopted the by-laws passed by the provisional directors on July 27, 1904, appointed auditors and referred to the board a proposed agreement with Ostrom regarding copyrights.

The Act forbade the commencement of business until $62,500 of the capital should be paid in cash into the funds of the company, the amount paid in by any shareholder not being less than 10 per cent of his subscription. On the application for license, a sworn statement was submitted to the Superintendent, showing 8,132 shares in all subscribed. Of these 6,284 shares were alleged to have been paid up to the extent of 10 per cent or more, $63,870 having been paid in on them. The other 1,848 shares had produced $3,310 only. Of these 6,384 shares, 1,600 were subscribed when the license was applied for by the president, Mr. D. A. Gordon, who borrowed the money to pay the 10 per cent upon them They were necessary to make up the paid-up capital which the Act required. The executive committee on May 19, 1906, while the application for license was pending, passed a resolution providing that Gordon be allowed a rebate on these shares of $8 per share which, the resolution stated, was less than the cost of obtaining past subscriptions had been. The resolution went on to provide that no further allotment of stock should be made without the consent of the president. This arrangement formed part of the transaction by which Gordon purported to subscribe for these shares and to pay 10 per cent upon them. Prohibiting further sales without his consent afforded him the opportunity of disposing of them. The persons concerned showed no respect for the Act of Parliament, the provisions of which were deliberately violated. As pointed out later, there is some doubt whether the executive committee which passed this resolution was validly appointed.

Some of the shareholders gave their notes in payment of the capital call, and in some cases the notes were not strictly enforced. Ostrom's own note for $3,500 has not been paid and no interest has been collected. Interest was charged in his account, but was afterwards wiped out by a cross entry.

The Act provides that the head office shall be in Toronto or in such other place in Canada as the directors may from time to time determine. In the interval between the two organization meetings many stock subscriptions were obtained in Winnipeg, apparently on the understanding that the head office would be located there. At a board meeting held immediately after the shareholders' meeting of March 21, it was decided that the head office should be changed to Winnipeg. All the directors present except Mr. R. C. Hutchinson, of Montreal, voted for the change. Ostrom himself voted for it, though he was opposed to the removal. He suggests by way of explanation that the meeting was 'rushed.' However that may be, his real attitude was hostile, and he seems to have determined to defeat his board of directors and to prevent the transfer if possible. He was assisted in this by the president and other Toronto and Montreal directors. He does not, however, seem to have been at all frank with them, and later, with fuller knowledge, they declined to support some of his plans.

The removal not taking place promptly, as the western directors had expected, they had recourse to a by-law giving any four directors power to call a special meeting, and summoned the board to meet at Winnipeg on August 10, 1906. They also by notice to the bank prevented funds from being withdrawn. Ostrom at once laid his plans to circumvent them. He induced the president to call a meeting at Winnipeg for the 9th. The western directors do not seem to have been notified, or if they were,

at so late a date as to prevent their attendance. The meeting was accordingly attended by Gordon, Ostrom, Livingstone, St. Denis, Brunet, Graham and Desauliers, directors from Ontario and Quebec. They elected A. Denholme, director, in place of J. F. Boles, who had died, and passed a by-law changing the head office back to Toronto. They then adjourned to the following day. On the 10th both parties were in attendance, and a very heated discussion took place. The western directors made serious charges of falsification of the records. The official list of elected directors showed fourteen eastern to eleven western directors. This was claimed to be a fraudulent and false statement of the result of the election. The minutes recorded an adjournment to Toronto, and it was claimed that the adjournment had been in fact made. The position that every act of the board after its first meeting on the 21st March, including the appointment of an executive committee, was illegal, was firmly taken. Counter allegations were made. It was said that some of the western directors were not qualified, all calls on their stock not being paid. While it seems true that some of the directors in both factions were not properly qualified, they had, no doubt, been elected on the understanding that they would qualify. The meeting was at last adjourned until the following day without transacting any business except agreeing upon a committee to bring in a report. On the 11th, after the committee had reported, it was unanimously resolved to remove to Winnipeg in accordance with the resolution of March 21, 1906. The acts of the executive committee from that date forward, except the resolution for the allotment of the 1,400 shares to Ostrom, were confirmed. Brunet, Livingstone and Graham resigned from the executive committee, and a new committee composed of Bawlf, J. T. Gordon, Rogers (chairman) and Taylor, all Winnipeg directors, with the president *ex-officio*, was appointed.

At an early stage Mr. Ostrom manifested his intention to exploit the company, for his personal benefit. An agreement, prepared by Ross & Holmsted, who were instructed by him, was presented to the shareholders' committee at its first meeting, March 16, 1904. It provided for an assignment by him to Graham, Holmsted and William Scott, trustees for the proposed company, of certain copyrighted forms of insurance policies. The price was to be $49,000 fully paid stock, $1,000 cash, and employment as first vice-president and director of agencies and of the actuarial department for five years at a salary of $3,000. Inasmuch as the copyright could confer no exclusive right to the plans of insurance covered by the copyrighted forms, this was practically paying $50,000 to Ostrom for drawing the forms. Mr. George Stevenson was also a party to the instrument. The securing of the valuable copyrights moved him to agree with Ostrom to

> 'facilitate him in the promotion of the insurance company by devoting a portion of his time thereto.'

When it is remembered that the shareholders' committee consisted of Ostrom, Holmsted and Graham, it is not surprising that the proposed agreement was enthusiastically received.

After the illegal meeting of shareholders of December 7, 1904, and while the management elected by it was in control, the bargain was carried out. There were allotted to Ostrom 1,400 shares of stock on which he was credited with the 10 per cent call, $14,000, and a premium of $25 per share, $35,000. Subsequently, when a person claiming title under a mesne assignment of the copyrights by Ostrom to Stevenson brought an action to have his rights declared, Ostrom, thinking it good policy to belittle the copyrights, moved and procured to be passed by his executive committee a resolution stating that the copyrights had lapsed, that they had not been approved by the Superintendent, and that the agreement to purchase them had therefore become void. The shares were cancelled accordingly.

But that was not the last of the matter. Ostrom again brought it up on the eve of the shareholders' meeting of March 21, 1906, at a meeting of the board, which was then, in view of the shareholders' meeting about to be held, calling itself a 'pro-

visional' board. That body ordered the execution and submission to the shareholders of the agreement with Ostrom then proposed. The shareholders at the meeting referred it to the baord elected by them, which referred it to te executive committee. At first, action by the committee was deferred until Hon. Robert Rogers, a member of the committee residing in Winnipeg, where the opposition to Ostrom's scheme was most pronounced, could be present, but on April 12, at an executive meeting at which Ostrom, Gordon and Livingstone were present in person and Graham by a judicious use of the telephone, the purchase was affirmed and the 1,480 shares ordered to be allotted. The minute explains the apparent urgency on the ground that it was expedient

> 'to complete the rate books and policies and enter the insurance field immediately.'

In the following August, shortly before the Winnipeg meeting, and when Ostrom was about leaving for that place, he laid some stock certificates before the president for signature. The president says that he was particular to inquire whether they were in respect of the 1,400 shares, and was assured by Ostrom that they were not. He signed certificates for 240 shares, and says that then, finding upon inquiry from the book-keeper that it was the 1,400 shares which he was issuing, he ceased signing. The certificates signed were taken by Ostrom to Winnipeg and were there given by him to Gordon, who cancelled them. He had assured the objectors at the Winnipeg meeting that the shares would be given up. When that meeting ratified all the acts of the executive committee there was a significant exception made of the resolution regarding these shares. On his return to Toronto, Ostrom procured Vice-president Graham to sign fresh certificates. Graham was at the Winnipeg meeting and was perfectly aware of the situation, but he was apparently prepared to do anything Ostrom asked him to do, except to mislead the Commission with regard to the date when he signed the certificates. It was on the morning of September 4, the day upon which this company's affairs came under inquiry.

When the company was ready to commence business Ostrom's estimate of the value of his services had greatly increased, and he induced the provisional directors to approve and recommend to the shareholders a contract under which he was to receive for five years a salary of $5,000, and a commission of $1 for each $1,000 of new insurance upon which two premiums should be paid. On the termination of the contract whether before or after five years, the commission takes another form. It is to be $1 per $1,000 per year of insurance secured under his management, and is to be payable so long as the insurance remains in force. Besides salary and commission, Ostrom was to be paid the usual agent's commission on all insurance procured by him on the lives of persons not canvassed by the company's agents. A provision that the amount payable should not exceed $25,000 in any one year indicates the value placed by Ostrom upon this contract.

Notwithstanding its important character, the contract does not seem to have been submitted to the shareholders, no reference to it appearing in the minutes of their meeting, but at a directors' meeting held immediately afterwards it was approved,

> 'subject to such increase to Mr. Ostrom as may be agreed upon by Mr. Ostrom and the board of directors.'

This clause was added, Ostrom says, because it was then intended to move to Winnipeg where the cost of living would be increased.

At May 31, 1906, some weeks before obtaining the license, the company had paid out the following sums for expenses, commissions, &c.:

Commissions (*re* Stock Subscription)	$37,571 49
Advances made to Agents	967 00
Salary of Office Staff	9,573 30
Printing, Advertising, Stationery	2,776 72

Travelling Expenses (T. M. Ostrom)	$ 723 05
Telegraph, Telephone, Express, Postage	1,496 57
Legal Expenses	4,039 26
Rent	1,210 00
Montreal Expenses	252 11
Bank Charges	109 71
Sundry Expenses	1,566 85
Accrued Expenses (T. M. Ostrom, May salary)	416 66
Auditors' Fees (Edwards, Morgan & Co.)	250 00
	$60,952 72

Out of the amount paid for commissions, Ostrom received $14,306 for selling stock, and he was also paid during the same period $5,791.67 as salary. Included in his commissions is a sum of $214.50 paid him as in respect of 12 shares of paid up stock which he did not sell, but which were allotted by the provisional directors to Matthew Wilson, K.C., for services prior to incorporation. In the opinion of your Commissioners it is doubtful whether these shares, under the circumstances, were legally issued. The services connected with incorporation seem to have been performed by other solicitors, who were paid $814.26. When the 1,400 shares were first issued to Ostrom for his copyrights, a resolution was passed that he be paid $7,000 commission on these shares also, but two of the directors, Perfect and Scott, objected, and he abandoned the claim.

The munificence with which it was proposed to deal with Ostrom was not entirely absent in the directors' proposed dealing with themselves. At the meeting of December, 1904, on motion of T. H. Graham, seconded by D. A. Gordon, it was resolved that

'$25,000 worth of stock, including premiums fully paid up, be allotted to Messrs. Cochrane, Livingstone, Graham, Scott, Godfrey and Gordon in equal amounts, in compensation for services for promoting the Monarch Life Assurance Company to date and for further services for one year from date.'

This seems a disproportionate reward to these gentlemen for their attendance at meetings from March, 1904, to December, 1905. The resolution involves besides an entirely erroneous idea of the position and rights of promoters in the creation of this company. It also ignores the fundamental difficulty of nursing an insurance company through its early years with its heavy expenses and small premium income, substituting gross extravagance, if nothing worse, for the cautious economy which is essential. Mr. Matthew Wilson, K.C., advised that the stock thus allotted would be in law unpaid, and that the subscribers would be liable for the full amount, and the plan was abandoned for the time at least. But the minutes indicate that the intention of paying themselves handsomely has never been abandoned. The subject was discussed at the Winnipeg meeting, but no conclusion was then reached.

MUTUAL RESERVE LIFE INSURANCE COMPANY.

The company procured legislation in 1904 (4 Edward VII., cap. 101), whereby it was intended to facilitate the transfer of assessment policyholders to a legal reserve section, giving the assessment policyholders certain options set out in the Act. It is declared that the policyholder exercising 'either of said options' shall be entitled to a dividend of his proportionate share of $152,000 on deposit in the hands of the Receiver General of Canada, applicable to the assessment policies of the company in Canada at the date of license.

The company and the Insurance Branch hold diverse views with reference to the proper interpretation of the statute in so far as the rights of policyholders desiring to continue on the assessment plan are concerned.

The company takes the position that:—

(*a*) Policyholders who retained their old assessment contracts were not allotted any portion of the said sum of $152,000, but that the proportion applicable to such policies remains unallotted;

(*b*) That under the second option as regards allotments made by way of reduction of lien, forfeiture of the contract of insurance, involves forfeiture of the amount by which the lien was reduced, and

(*c*) That all allotments made in reduction of the natural premium under the third option on forfeiture revert to the company.

The Insurance Branch, on the other hand, holds that it was the intention of Parliament, and the stipulations in the Act mean that all the policyholders mentioned are entitled to participate in the allotment of the $152,000, and that the diversion of any part of that amount, whether by failure to allot the same or by forfeiture of sums already allotted, is a violation of the spirit and intent of the legislation.

The main question of construction is one of some nicety. There are three options given, followed by the provision that the policyholder exercising 'either of said options' shall be entitled to his dividend out of the deposit. The policyholder is given in the following section the 'right' to continue his policy under the assessment plan, and it may be that he is excluded by the wording and collocation of the different paragraphs of the section. The minor questions are also difficult.

Your Commissioners are of the opinion that this matter is not one within the scope of the Commission. It involves the determination of rights on the proper interpretation of the statute, and should be left to the decision of the courts.

THE COMMERCIAL TRAVELLERS' MUTUAL BENEFIT SOCIETY.

This society was incorporated on January 27, 1882, by certificate issued under the Friendly Society provisions of the Ontario Insurance Act. It is, therefore, a provincial corporation, but it transacts business in other provinces of Canada under a Dominion license. Its contracts are not confined exclusively to commercial travellers, but it undertakes to insure all non-hazardous lives, those who insure becoming members of the society.

On December 31, 1905, its assets, according to the return made to the Department of Finance, were $58,796.89, and its liabilities $4,538.35, leaving a net surplus of $54,258.54. The policies then in force were 1,878 in number, insuring $1,876,000.

In its early history it admitted members without medical examination, but that was discontinued many years ago.

Its general scheme of insurance is to charge each applicant $2 per annum for expenses, and to collect fixed assessments bi-monthly, half yearly or yearly, which are supposed to be accumulated as an insurance or mortuary fund. There is power to make additional assessments, and the society's policies, following the provisions of the Insurance Act, require them to be made, if necessary to the payment of mortuary claims. Claims are only payable out of the death funds and the proceeds of such assessments.

With the exception of the years between 1890 and 1900, the only provision for expenses has been the $2 per annum per member. During those years the interest realized by investment of the mortuary fund was applied towards expenses. By means of this assistance and economical management the total expenses for the years 1891 to 1905, inclusive, have been kept within the total amounts available, the latter being $60,208, and the former $59,908.

Prior to 1900 the members' ages were grouped for premium rate purposes, as shown in the accompanying tables. No scientific principle seems to have been adopted in the computation of premiums prior to that year. The rates in use from 1881 to 1893 are shown in the second column of the table. In 1893 they were somewhat increased, as shown in the third column. In 1897 the rates for ages between 40 and 50 were readjusted and increased as shown in the fourth column, the rates for earlier ages being untouched. In 1900 or 1902 the rates were very substantially increased (see the fifth column), and the grouping principle was abolished. About that time there was much

anxiety upon the subject of the sufficiency of the rates, and actuarial advice was sought, though it appears that the actuary's rates were not adopted. The rates then fixed are still in force, and approach very nearly to the standard rates deduced by the Hunter and National Fraternal Congress Tables, which are set out in sixth and seventh columns.

Age.	1891.	1893.	1897.	1900-2.	Hunter.	N.F.C.
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
18				9 60	9 86	
19				9 90	10 20	
20				10 20	10 55	
21	6 60	7 20	7 20	10 50	10 91	10 62
22				10 80	11 28	10 92
23				11 10	11 66	11 24
24				11 40	12 03	11 57
25				12 00	12 42	11 92
26				12 30	12 76	12 28
27	7 20	8 10	8 10	12 60	13 12	12 67
28				12 90	13 40	13 08
29				13 20	13 87	13 51
30				13 50	14 31	13 96
31				13 80	14 76	14 43
32	8 10	9 00	9 00	14 10	15 22	14 94
33				14 40	15 73	15 47
34				14 70	16 25	16 03
35				15 00	16 82	16 62
36				15 60	17 42	17 24
37	9 00	10 50	10 50	16 20	18 05	17 90
38				16 80	18 71	18 60
39				17 40	19 42	19 34
40			13 50	18 00	20 18	20 11
41				19 20	20 97	20 93
42	10 50	13 50		20 40	21 81	21 80
43			15 00	21 60	22 70	22 72
44				22 80	23 65	23 69
45				24 00	24 66	24 72
46			16 50	25 20	25 72	25 81
47	12 00	16 50		26 40	27 31	26 91
48			19 50	27 60	28 10	28 20
49			27 00	28 80	29 36	29 51
50	14 40	Nil.	30 00	Nil.		

The method of treating old members when rate advances were made appears to have been to apply the new rates for the original age of entry, the result being that the new rates, though probably nearly adequate in themselves, have not provided any substantial relief in respect of the burden of the old insurance, which has always been and is still being carried at a loss.

The subject will be further discussed, in a later part of the report, where the subject of fraternal societies generally will be dealt with.

THE SUPREME COURT OF THE INDEPENDENT ORDER OF FORESTERS.

Leaving out of consideration for the present such general questions relating to fraternal societies as require special consideration, the history of this important order presents many points of interest. It is much the largest in point of numbers and the widest in geographical extent of all those fraternal organizations with which the Commission has been concerned. Its methods have been aggressive, its accumulation of funds and its distribution of insurance benefits remarkable, its expenditure enormous. It illustrates in a singular degree the possibility of supreme control becoming vested in an individual. Its management has been characterized by extravagance which, in the pursuit of geographical expansion became recklessness. It has succeeded hitherto in inducing Parliament to accord it exceptional recognition as a fraternal society from the insurance standpoint and has incidentally broken through nearly all the barriers interposed by the Department of Insurance in the attempt to keep the statute law of insurance upon an intelligible an consistent footing.

The fraternal society known as the Ancient Order of Foresters had its rise in the United States. By a secession in 1874 the Independent Order of Foresters separated from the parent body, remaining, however, a United States Order. At the time of the secession and for a year afterwards the order confined itself to what are called 'friendly benefits,' but in 1875 the feature of endowment or insurance was added.

In 1876 the first Canadian subordinate court or lodge was established in the province of Ontario, and in 1878 the number of subordinate courts in that province became sufficient for the establishment of a high court, known as the Ontario High Court, and owing allegiance to the Supreme Court in the United States. That high court took out a certificate of incorporation in the province of Ontario under the Friendly Societies' Act. In the same year, 1878, Dr. Oronhyatekha became High Court Ranger for Ontario. A Canadian secession occurred in 1879, the seceders going out under the name of the Canadian Order of Foresters. Dr. Oronhyatekha and his friends, however, remained loyal to the United States Order until 1881, when they also seceded, taking with them the name Independent Order of Foresters, and incorporating as an independent supreme court under the same Act. Dr. Oronhyatekha became the Supreme Chief Ranger, or chief executive officer of the seceding body, which position he has ever since held.

The subordinate courts or lodges have certain limited powers of taxation in respect of their membership, but solely for domestic purposes, as maintenance. They send representatives to the high courts, which sit yearly or biennially or triennially as the case may be, and are composed of the delegates sent by the subordinate courts within their respective jurisdictions. The high courts have as sources of revenue certain charter fees of subordinate courts or royalties in respect thereof, the profits upon sales of supplies to subordinate courts and certain fixed powers of taxation in respect of the membership of the subordinate courts. Their expenses are the salaries and expenses of their officers, including organizers and the expenses of the meetings of the high courts and of the delegates attending them.

Neither the subordinate nor the high court has any direct connection with the insurance scheme of the order.

The Supreme Court, which has met about every three years, is composed of the executive and other officers of the Supreme Court and of delegates elected by the High Courts. Between sittings absolute power is vested in the Executive Council which consists of a Supreme Chief Ranger, a Past Supreme Chief Ranger, a Supreme Chief Vice-Ranger, a Supreme Secretary, a Supreme Treasurer, a Supreme Medical Officer and a Supreme Counsellor.

The Supreme Chief Ranger and his executive have always been supreme, in fact as well as in name. An enactment well devised to stifle criticism is found in what is now article 176 of the Constitution, which prohibits subordinate courts and their members from writing, reading or acting upon any communication relating to the Order without the sanction of the Supreme Chief Ranger or the High Chief Ranger of the jurisdiction.

The sources of income are certain taxes and fees exacted from the whole membership, certain charter fees, and the rates fixed and exacted from the members in respect of benefits, which are divided into mortuary or insurance benefits and sick and funeral benefits.

Apart from the proceeds of certain special taxes there are accordingly three funds:—

(1) Mortuary or insurance;
(2) Sick and funeral;
(3) General or expense.

The constitution permits 5 per cent to be taken from the mortuary fund for addition to the general fund.

Upon secession in 1881 certain rates were fixed, to be charged the membership for the mortuary or insurance benefits. These rates would appear to have been higher

than those prevailing theretofore and may properly be treated as being premium rates. They were compulsory in respect of all members, while the rates charged for the sick and funeral benefits were optional. It does not appear that any technical skill was applied to the fixing of the rates in 1881. The statement made is (page 2205):—

'We resolved to take the combined experience table, I think it was, and take its rates of cost of risk at first entrance and adopt it as the premium rate of the reorganized Order.'

This would appear to point to the term rate for a single year of insurance and this view of it is borne out by what the same witness, Dr. Oronhyatekha, says at page 2214:—

'Q. That is that the tables are founded upon the supposition that a premium intended to carry a risk for one year was sufficient to carry it during life?—A. Oh, yes.

Q. That is right?—A. That is correct.

In 1898, it was deemed desirable to fix a new table of rates.

The underlying principle was (page 2206) to get for our membership the insurance benefit at absolute cost; we did not know what it was, and we set out to find that.'

The method said to have been adopted was to take the expectation of life at age of entry and fix such a premium as would, if invested at 4 per cent during such expectation, produce $1,000, after deducting the 5 per cent for expenses permitted by the constitution to be deducted from the mortuary fund.

The alteration in rates of 1898 did not apply to members who came in before the alteration. They have continued to the present time to pay the old rates.

A table of the rates, both of 1881 and of 1898, which was made up and presented by the order as Exhibit 456 follows:—

Age.	1881 Rates per 1000 monthly.	Present Rates per 1000 monthly.	Difference.	Increase in terms % of 1881 rates.
	$ cts.	$ cts.	$ cts.	
18	.60	.76	.16	26.7%
19	.61	.78	.17	27.9%
20	.62	.80	.18	29.0%
21	.63	.82	.19	30.2%
22	.64	.84	.20	31.3%
23	.65	.86	.21	32.3%
24	.66	.90	.24	36.4%
25	.67	.94	.27	40.3%
26	.68	.98	.30	44.1%
27	.69	1.02	.33	47.8%
28	.70	1.06	.36	51.4%
29	.71	1.10	.39	54.9%
30	.72	1.14	.42	58.3%
31	.73	1.18	.45	61.6%
32	.74	1.22	.48	64.9%
33	.75	1.26	.51	68.0%
34	.76	1.32	.56	73.7%
35	.78	1.38	.60	76.9%
36	.80	1.44	.64	80.0%
37	.82	1.50	.68	82.9%
38	.84	1.56	.72	85.7%
39	.86	1.62	.74	86.0%
40	.88	1.68	.80	90.9%
41	.90	1.76	.86	95.6%
42	.92	1.84	.92	100.0%
43	.95	1.92	.97	102.1%
44	.98	2.00	1.02	104.1%
45	1.02	2.08	1.06	103.9%
46	1.07	2.18	1.11	103.7%
47	1.14	2.32	1.18	103.5%
48	1.22	2.50	1.28	104.9%
49	1.35	2.70	1.35	100.0%
50	1.45	2.90	1.45	100.0%
51	1.55	3.10	1.55	100.0%
52	1.65	3.30	1.65	100.0%
53	1.75	3.60	1.85	105.1%
54	1.85	3.90	2.05	110.8%

The computation of these premiums, even if it were in other respects sound, seem to have altogether disregarded a feature of the insurance scheme which is of material importance. Upon the occurrence of what is called 'total disability,' during the life of the insured member, he became at once entitled to one-half the total amount insured, was relieved from payment of any further premium during his lifetime, and the remaining half of the amount insured was payable at his death according to the terms of the certificate of insurance.

To the general or expense fund, to which five per cent of the mortuary fund was permitted to be carried, were carried also certain certificate and charter registration fees, the profit from sales of surplus (stationery, literature, &c.) and the proceeds of a tax called the 'Extension of the Order tax.' This tax, which embraced under one head certain former taxes, such as capitation tax and 'Forester' (newspaper) subscription tax, is levied upon all members, and is a graduated tax fixed as follows:—

For each member holding		$ 500	of insurance,	5	cents per month.
"	"	1,000	"	10	"
"	"	2,000	"	15	"
"	"	3,000	"	20	"
"	"	4,000	"	25	"
"	"	5,000	"	30	"

This tax was intended to be applied generally towards extending the sphere of the Order's operations, but, as part of the general fund, it was at the disposal of the executive for the purpose of defraying all the expenses of the Order, including salaries and expenses of officers and organizers.

The constitution of the mortuary and general funds, their relation to each other, and the purposes which they were respectively supposed to serve become of much importance when the subsequent financial history of the Order comes to be examined.

In 1889 the Order had made wide extensions into other provinces than Ontario, and were vigorously extending in the United States, and in that year the Order applied to parliament for a special Act of incorporation. It was thought that a Dominion charter would give the Order prestige. The application met with serious opposition from the Department of Insurance. Exhibit 33 contains a report made by the Superintendent of Insurance, Mr Fitzgerald, to the Chairman of the Banking and Commerce Committee. The Insurance Act then in force was R.S.C., cap. 124. That Act made provision for the licensing of *insurance companies*, and it was apparent that its main provisions were intended only to apply to companies maintaining a reserve computed according to the provisions of of section 35. The Independent Order of Foresters did not then nor do they now profess to maintain such reserve. The superintendent appears to the Commission to have been clearly right in the assumption that the Order's incorporation was not, therefore, intended to make the Order subject to those main provisions. Indeed this was the view of the Order itself. Then there was a group of sections, 36 to 42 inclusive, framed for the purpose of dealing with the case of pure assessment companies, meaning companies which collected no premiums properly so-called from those insuring with them, but paid death claims solely out of assessments upon them made for the purpose.

The Independent Order of Foresters altogether rejected the idea that they fell within the catagory, inasmuch as though they had a provision for making an assessment to meet a death claim in case of emergency, their primary and principal means of providing for death claims was the ordinary fund resulting from the collection of level premiums. This contention the Commission thinks was correct, and the superintendent did not in any way disagree.

The point of disagreement was the following: Section 43 exempted *altogether* from the provisions of the statute societies for fraternal purposes, among which purposes the section included the insurance of the lives of the members of such societies exclusively.

But the same section permitted such a fraternal society to bring itself within the Act only on terms of bringing itself under the group of sections relating to pure assessment companies.

The Independent Order of Foresters, the superintendent thought, ought either to remain outside the Act altogether, or to come in as a level premium company maintaining a reserve. He recognized what is now admitted, that the object of incorporation was to secure the *imprimatur* of parliament, and he recommended that seeking such *imprimatur* the Order should conform to the parliamentary requirements.

The result of the contest was the incorporation of the Order by the Act 52 Vic., cap. 104. The difficulty stated was temporarily solved by requiring the Order (sec. 8) to make it plain upon its policies, applications and receipts that its insurance was within the exception contained in the forty-third section applicable to fraternal societies, and was not subject to government inspection.

This Act, so far as it is material to the present report, limited the holding of real property by the Order in Toronto to a value of $100,000.

It further made specific provision with regard to permissible classes of investment. First mortgages on lands held in fee, deposits with Canadian loan and investment companies, registered debentures of such companies, Canadian municipal or school debentures, Dominion or provincial securities and deposits in chartered banks are the only classes permitted.

The statue was probably found, in view of the provision made by the eighth section, not to be particularly promotive of the order's prestige. In 1892 the order applied for registration as an assessment company under the group of clauses in the General Act to which reference has been made. It seems likely that the object of this application was to secure the prestige of a Dominion deposit and license under section 39.

The Treasury Board, however, declined to permit the registry, apparently upon two grounds: one being the impossibility of treating the order as an assessment company at all, in view of its method of collecting level premiums, and the other the express provisions of section 8 of the Act of incorporation.

This refusal was preceded by an opinion from the Department of Justice, in which the additional ground for refusing the order recognition as an assessment company was taken that their insurance contracts included policies in the nature of endowments.

In 1895 the order again applied for legislation, but it is sufficient to say of this application that its general object, which was to secure the right to make a deposit and obtained a license, was not attained, a modified Bill which passed the Commons not having passed the Senate.

In 1896 the order again applied for legislation. On this occasion parliament yielded. It is not difficult to recognize the remarkable diplomacy of the supreme chief ranger in this ultimate triumph.

The order obtained what was practically full recognition as an insurance company, entitled to make the government deposit and to obtain the government license, but not bound to maintain any reserve. The statute professed in some respects to treat the order as an assessment company, ignoring the fundamental distinction pointed out by the superintendent on the former occasion.

The constitution of the order contains a provision for making extraordinary assessments upon the members in addition to the mortuary rates or premiums. In its present form it is section 157 of the constitution, and its purpost is to enable the executive to order such extra assessments whenever and so often as the available mortuary funds become reduced to less than the amount of claims passed by the executive within the then preceding sixty days. This is spoken of by the supreme chief ranger as the 'safety' clause. It seems manifest upon the evidence, and is indeed plain upon the face of the clause itself, that resort is not intended to be had to this provision until the accumulation of surplus mortuary funds, amounting now to more

than $8,000,000, has practically disappeared, and the executive has always made it a feature of its fraternal system as compared with the systems of other fraternal societies that the members always know exactly how much they have to pay to keep their insurance on foot. It is not the case of an assessment company whose members have never paid premiums at all, but have always paid mortuary assessments as the consideration for their insurance, but a case where those insured have always paid level premiums professedly fixed as being sufficient to provide for the cost of insurance. It seems manifest, therefore, that should the 'safety' clause be resorted to, under these circumstances, and after the loss of $8,000.000 of surplus accumulated from premiums, the result would be final and complete disaster. The Independent Order of Foresters, therefore, presents the anomaly of an insurance company doing business upon the level premium basis, but making no pretense of maintaining the legal reserves, save that the public is to be informed that no reserve is required to be maintained by it, and save that its policies must be endorsed with the fiction 'Assessment system.'

This statute further increased the powers of the order in respect of holding real estate in Toronto from $100,000 to $350,000, a provision which had been boldly anticipated, and indeed already greatly exceeded in the ambitious Temple Building project.

It also permitted investment or deposit outside Canada of such portion of the funds of the order as might be necessary for maintenance of foreign branches, not exceeding, however, one-fourth of the available surplus.

The limitation upon amount of any insurance was raised from $3,000 to $5,000, but the order was prohibited from issuing annuities or endowment policies. (The Old Age Disability Benefit, now provided for by section 158, subsection 20, of the constitution, appears to be in part of the nature of an endowment, and the provision is probably to that extent invalid.)

The liability of retiring members was limited to such assessments, dues, fees, taxes and fines as had been notified to them or had matured and become due at the date of retirement.

The only other statute to which reference need be made for the purposes of this report is the statute of 1901.

This Act made an alternation in the powers of the order in respect of holding real estate. The limitation is made by yearly instead of by capital value, $30,000 per annum is substituted for the capital value of $350,000 fixed by the Act of 1896.

By this Act, also, the order's powers of investment were widened so as to coincide with the general powers given by the fiftieth section of the Insurance Act.

The history of the Order with regard to foreign extensions has been instructive and so interesting as to be almost picturesque.

The United States field was invaded at an early date. In 1891 the Supreme Chief Ranger reported to the Supreme Court in part as follows:—

> 'Since the last session of the Supreme Court we have instituted High Courts in Minnesota, New York, California, North Dakota, Illinois and Missouri. We have also broken land in Oregon, Washington, Colorado, Montana, Arizona, Wisconsin, Pennsylvania and Kansas.'

The same report speaks of the extension of the Order to Great Britain, where it seems to have spread in that or the previous year, but it does not appear to have made much headway there till the organizing visit of the Supreme Chief Ranger in 1897. He took with him a considerable organizing staff among whom were Messrs. Marter, McNair, Williams, Gilmore and Campbell. The result of the work in Great Britain is summed up in the following table:—

GREAT BRITAIN AND IRELAND.

RECEIPTS.

Years.	Mortuary.	Sick and Funeral.	General or Expenses.
	$ cts.	$ cts.	$ cts.
1896	45,155 65	252 28	4,442 04
1897	52,866 49	267 23	6,158 09
1898	68,873 81	365 72	9,148 37
1899	86,038 12	439 41	11,774 81
1900	94,022 86	546 17	9,743 79
1901	106,793 46	643 32	11,129 05
1902	118,841 93	628 70	11,372 90
1903	127,211 11	699 22	11,776 74
1904	129,812 62	636 14	11,733 99
1905	135,003 64	631 45	11,587 32
	964,619 69	5,109 64	98,867 10
5 per cent to General	48,230 95	....	48,230 95
	916,388 74	....	147,098 05

DISBURSEMENTS.

Years.	Mortuary.	Sick and Funeral.	General or Expenses.
	$ cts.	$ cts.	$ cts.
1896	11,237 16	23 86	24,456 47
1897	14,135 49	103 16	30,596 82
1898	37,666 53	44 83	53,412 96
1899	24,931 54	167 95	36,372 61
1900	34,826 95	307 95	36,168 51
1901	51,144 07	271 79	42,209 43
1902	30,898 50	420 83	43,957 95
1903	43,301 34	64 29	39,952 27
1904	54,630 83	318 02	37,422 04
1905	61,320 09	178 35	26,688 21
	364,092 50	1,901 03	371,237 27

Showing an outlay in organizing and other expenses of $371,237.27 as against total receipts on expense account of $147,098.05.

The Supreme Chief Ranger went to the continent of Europe in the following year, 1898, the necessary resolution being passed by his executive council, to make inquiries and take initial steps to introduce the Order there. He appeared to have travelled over parts of the continent, including France and Italy, and he even went so far as Egypt, where he initiated one person into the Order, but his journey seems, so far as the interests of the Order were concerned, to have been substantially confined to a survey of the territory. In the meantime, as shown by his report to the Supreme Court in the summer of 1898, the manager for Great Britain, Mr. Marshall, appears to have stimulated progress in Norway, where a high court was established on July 7, 1898. This opened what was called the Scandinavian field, including Norway and Denmark, in which the first outlay took place in that year. The expense of working this field and the crop reaped there were as shown by the following table:—

SCANDINAVIAN.

RECEIPTS.

Years.	Mortuary.	Sick and Funeral.	General or Expense.
	$ cts.	$ cts.	$ cts.
1896			
1897			
1898			
1899			
1900	196 05	0 48	14 04
1901			
1902	1,275 90	0 96	80 33
1903	5,323 11	5 57	364 34
1904	5,762 46	5 51	360 09
1905	6,453 04	204 85	403 84
	19,010 56	217 37	1,225 64
5 per cent to general	950 50		950 50
	18,060 06		2,176 14

DISBURSEMENTS.

Years.	Mortuary.	Sick and Funeral.	General or Expense.
	$ cts.	$ cts.	$ cts.
1896			
1897			
1898			811 02
1899	2,000 00		1,367 71
1900			4,117 52
1901			10,400 93
1902	1,459 98		22,567 90
1903			21,622 07
1904	1,949 16		14,147 49
1905	1,478 42		12,709 64
	6,887 56		87,744 28

The expenses incurred being $87,744.28 as against total receipts on expense account $2,176.14.

The only other continental field which was occupied, was that known as France and Belgium. The results there were as follows:—

FRANCE AND BELGIUM.

Receipts.

Years.	Mortuary.	Sick and Funeral.	General or Expense.
	$ cts.	$ cts.	$ cts.
1896			
1897			
1898			
1899			
1900	233 07	13 23	23 26
1901	773 54	28 19	38 34
1902	1,646 25	50 49	88 35
1903	1,749 35	33 03	94 75
1904	1,621 00	30 86	91 30
1905	1,207 48	27 16	53 31
	7,230 69	182 95	389 31
5 per cent to general	361 50		361 50
	6,869 19		750 81

Disbursements.

Years.	Mortuary.	Sick and Funeral.	General or Expense.
	$ cts.	$ cts.	$ cts.
1896			
1897			
1898			
1899			
1900			12,775 08
1901			6,802 30
1902			5,244 82
1903	1,218 61		1,265 51
1904		90 45	293 88
1905	244 00	84 29	171 43
	1,462 61	174 74	26,553 02

At the meeting of the Supreme Court in 1898 the Supreme Chief Ranger was given the usual free hand with regard to opening up the work of the order in Australia, New Zealand, Van Dieman's Land, South Africa, India and 'islands and countries contiguous thereto,' and in October of the following year he was furnished with a letter of credit for $25,000, and proceeded with his staff to India and Australia. A high court was established for Bengal and a subordinate court at Calcutta, and in Australia the foundation work was made to cover the states of Victoria, South Australia, and New South Wales.

The financial results of the work of the order in these two jurisdictions will appear from the following tables:—

INDIA.

Receipts.

Years.	Mortuary.	General or Expense.
	$ cts.	$ cts.
1900	8 09	0 25
1901	1,414 45	912 17
1902	1,928 94	504 26
1903	2,870 21	151 51
1904	2,732 34	124 29
1905	3,317 68	156 99
	12,271 71	1,849 47
5 per cent to general	613 55	613 55
	11,658 16	2,463 02

Disbursements.

Years.	Mortuary.	General or Expense.
	$ cts.	$ cts.
1900		3,272 10
1901		7,422 20
1902		8,314 89
1903		2,684 84
1904	964 02	
1905	1,999 54	4,169 10
	2,693 56	25,863 13

AUSTRALIA.

Receipts.

Years.	Mortuary.	General or Expense.
	$ cts.	$ cts.
1900	1,621 19	528 57
1901	13,553 32	2,176 67
1902	22,006 68	2,329 89
1903	32,706 36	2,657 89
1904	29,608 22	2,018 26
1905	28,538 25	1,824 68
	127,834 02	11,535 96
5 per cent to general	6,391 70	6,391 70
	121,442 32	17,927 66

DISBURSEMENTS.

Years.	Mortuary.	General or Expense.
	$ cts.	$ cts.
1900	2,427 77	35,726 57
1901	....	128,516 86
1902	2,433 31	151,687 89
1903	8,289 46	42,854 30
1904	8,462 23	52,712 00
1905	6,862 05	20,973 33
	28,474 82	441,471 55

Combining the tables above for Great Britain, Scandinavia, France and Belgium, India and Australia, we obtain the following eloquent results:—

	Insurance.		Expenses.	
	Premium. Receipts.	Benefits Disbursed.	Received.	Paid out.
	$ cts.	$ cts.	$ cts.	$ cts.
Great Britain	969,730	365,994	98,867	371,237
Scandinavia	20,237	7,839	1,226	87,744
France and Belgium	7,414	1,638	389	26,553
India	12,272	2,964	1,849	25,863
Australia	127,834	28,475	11,536	441,472
	1,137,487	406,910	113,867	952,869
Add to expense receipts 5 per cent of	1,137,487	....	56,874	....
	1,137,487	406,910	170,741	952,869

The difference between $952,869 expenses paid out in the occupation of these fields, and $170,741, the amount received properly applicable to expenses, or $782,127, represents the resultant encroachment upon mortuary or other benefit funds.

The tide of extravagance which was flowing in Australia seems to have alarmed the Supreme Chief Ranger, and in the interests of economy, Hon. Dr. W. H. Montague was sent out to Australia armed not only with a contract with the Order for five years from February 1, 1901, but also with a sort of Royal commission signed and sealed by the Supreme Chief Ranger, naming him inspector general of the Order, and giving him rank and precedence over all managers, district superintendents and deputy supreme chief rangers in any jurisdiction which he might visit. How this gentleman carried out his mission of economy may be judged by a glance at the Australian figures already given for 1901 and 1902, which years cover the history of Dr. Montague's Australian work. The receipts on expense account during those years were $2,176.67 and $2,329.89, respectively, and the expenditures on general account $128,516.86 and $157,687.89, respectively. In 1900 the expenditure on these accounts had been $35,726.57, and it fell in 1903 to $42,854.30.

No doubt the fall in the figures after 1902 was largely due to the unfortunate episode, the culmination of which was the finding by a Royal commission, appointed by the government of Victoria, that Dr. Montague, the accredited agent of the Order, had been guilty of a corrupt offer of money to a member of the legislature, and of a corrupt payment of money to the Prime Minister, in the interest of and for the benefit of the Order. What his relations with the Prime Minister were is sufficiently indicated by a

very full report made by him and forming part of exhibit 453. The Prime Minister was to

> 'vindicate us (the I.O.F.) by personally answering in parliament questions which I would prepare and have asked in the House, and the answers to which I would prepare for him.'

This Commission does not deem it necessary to offer any comment upon this occurrence, save to mention it as a part of the history of the Australian extension.

At the date when the Order came under supervision by the department, which was after the Act of 1896, the department commenced and persisted in adverse criticism of the deficit in the general or expense fund, caused by the excess of expenditure over the expense revenue from all sources. This deficit was very largely due to the enormous comparative expenditure in the foreign fields to which reference has been made. According to the returns made to the department by the Order it has been steadily growing since the year 1900. The following figures are taken from the returns:—

December 31, 1900, deficit		$ 28,962
" 1901	"	277,324
" 1902	"	254,684
" 1903	"	348,947
" 1904	"	407,582
" 1905	"	442,953

The pressure brought to bear by the department seems to have resulted in the appointment on December 7, 1901, of a committee of the executive of the Order, with a view to an immediate adjustment of the deficit. The committee reported on January 4, 1902, recommending that one-half of the deficit should be borrowed from the sick and funeral fund, and the other half from the contingent fund, to be repaid at the rate of $10,000 per month, commencing March, 1902. This report was adopted. The contingent fund consisted of interest upon the accumulated funds, and its constitution and purpose are very fully defined in what is now section 33 of the constitution. The action of the executive in designating this fund as a source of making good, even temporarily, the deficit in the general fund, would seem to have been unwarranted. Its purpose being the maintenance and augmentation of the mortuary fund, the executive had no power, without the sanction of the Supreme Court, to divert it to any other purpose, even temporarily.

Nothing seems to have followed upon the adoption of this report, in the nature of a refund by instalments or otherwise, until the meeting of the Supreme Court of that year. At this meeting it was determined to divert from the mortuary fund the profits accruing from lapses and temporary insurances, and apply those profits to the strengthening of the general fund. It was also determined to carry to the general fund all interest in excess of 4 per cent earned by the mortuary fund. To these changes, as well as to the loan of any portion of the mortuary fund to the general fund, Mr. Fitzgerald seems to have firmly objected. He also insisted upon a general curtailment of expenditure, so as to bring and keep same within the limits of the general fund. Upon this, Mr. Stevenson, the Supreme Counsellor, had a conference with the superintendent, the result of which he reported to the executive on February 23, 1903. His report is fully set out in the minutes of that body. Among other things the superintendent, as this conference, urged the keeping of the mortuary and general funds in separate banking accounts, so as to make it impossible that cheques drawn for expenses should be paid out of mortuary funds, and he threatened to draw attention to the matter in his annual report unless the curtailing of expenditure to the extent necessary to avoid overdrawing the general fund were at once determined upon. The Supreme Chief Ranger was then out of the country, but the executive council immediately resolved in general terms upon curtailment according to the demands made by the superintendent, and deputed Mr. Stevenson to proceed to Egypt to see the Su-

preme Chief Ranger, and confer with him so that plans might be formulated by him for curtailment. Steps were ordered meantime to be taken to abridge the official organ and to discontinue advertising. The meeting between Mr. Stevenson and the Supreme Chief Ranger seems to have taken place, but nothing practical followed. On December 19, 1904, the overdraft in the general fund having grown in the meantime, from December, 1901, the date at which the executive first took the matter up, from $277,324 to $407,582, the executive passed a resolution which, singularly enough, in view of all that had taken place, authorized the Supreme Chief Ranger to borrow

> 'from the sick and general fund or any other available fund such sum or sums, in addition to what has been heretofore expended, as may be required to liquidate all obligations incurred or to be incurred in completing the Orphans' Home on Foresters' island,'

and provided further that such sums should be repaid out of the Orphans' Home fund 'whenever the condition will warrant.'

It is suggested that this resolution was not intended to warrant depletion of the mortuary fund, and that the sick and funeral fund was not within the protection of the Insurance Department at all. But whether that contention is well founded or not, it is manifest that further inroads continued to be made upon the mortuary fund notwithstanding all the protests of the department and the virtuous resolutions of the executive.

Matters stood in this position, with a growing deficit in the general account, until October 16, 1905, when the following resolution was passed:—

> 'Whereas there has been various sums of money borrowed at different times since the Supreme Court meeting of 1898 from the mortuary fund, the contingent fund and sick and funeral fund for the purpose of the general fund;
>
> And whereas the aggregate amounts of such loans from such funds with interest added to this date at the rate of 4 per cent per annum is as follows:—Mortuary, $297,587.75; interest, $30,213.93. Contingent; $171,272.33, interest, $22,326.22. Sick and funeral, $110,994.55; interest, $19,539.89 ;
>
> And whereas it is deemed proper that such amounts, with interest, be repaid to such several funds ;
>
> And whereas it is impossible, without suspending or seriously embarrassing the work of the society, to repay the several amounts in one payment or in large payments ;
>
> And whereas such funds are not at this time and it does not appear to be likely that they will in the near future be in need of such money :
>
> Be it therefore resolved that such indebtedness of the general fund to such several funds be funded and paid as follows :—$35,000 with interest at the rate of 4 per cent per annum at the end of each year for five years after this date, $30,000 with interest at said rate at end of each year for five years commencing with A.D. 1911, $25,000, with interest at said rate, at the end of each year of five years, commencing with A.D. 1916, $20,000, with interest at said rate, at end of each year, commencing with A.D. 1921.
>
> And be it further resolved that the Supreme Chief Ranger, the Supreme Secretary and Supreme Treasurer execute and issue under the seal of the corporation, debentures for such amounts to be designated 'general fund debentures' and made payable as above specified, with interest at said rate, and that such debentures when issued be a charge against the general fund of this society in favour of the funds above indicated.
>
> And be it further resolved that there be set aside from the income of the general fund, commencing with the month of January, 1906, and continuing during each month thereafter until the several amounts of such debentures with interest be paid in full a sum sufficient to pay at the end of each year the debentures that will then mature and the interest that will accrue thereon.

And be it further resolved that the several amounts of such debentures when paid be credited as follows:—for the loans made from the mortuary and contingent funds to the mortuary fund, for the loans made from the sick and funeral fund to the sick and funeral fund.

Whereas the Supreme Chief Ranger in carrying out the plan for the erection and equipment of the Orphans' Home on Foresters' Island has incurred in the name of the society obligations aggregating more than $50,000 above the $100,000 borrowed for that purpose from the sick and funeral fund, for material, labour, machinery, &c., entering into the construction and equipment of such home.

And whereas it is therefore expedient to furnish $50,000 to meet such obligation.

Be it therefore provided that the Supreme Chief Ranger, the Supreme Secretary and Supreme Treasurer issue $50,000 in debentures, 10 of $5,000 each, payable on or before one year from date, with interest at 4 per cent and borrow from the Standard Bank of Canada thereon the sum of $50,000 to be used in retiring obligations so incurred in connection with the erection and equipment of such orphans' home and that such debentures be designated orphans' home debentures and be a charge against the general fund of this society.

Resolved further that the Supreme Chief Ranger, the Supreme Secretary and Supreme Treasury issue like debentures for $100,000 to be held by the society as evidence of the indebtedness incurred in borrowing sums of money aggregating that amount from the sick and funeral fund to construct and equip such orphans' home and that such debentures be made payable on or before ten years from date and bear interest at said rate and that such interest be paid in equal monthly instalments out of the orphans' home contributions provided for by enactment of the Supreme Court at its last session, such interest charge to be treated as a part of the expense of maintenance of such orphans' home.

Resolved further that interest at the rate of 4 per cent per annum be charged upon the sums so borrowed from the sick and funeral fund from the date of the several loans so made for such purpose and that the amount of such interest accrued to this date be charged against the orphans' home contributions.'

It should be noticed that the recited indebtedness covers and reassumes certain 'borrowing' by the general fund from the mortuary fund and the sick and funeral benefit fund as follows:—

Mortuary fund..	$171,272 33
Sick and funeral fund..	110,994 55

both of which the Supreme Court is said, at its 1902 convention, to have forgiven and written off.

This extraordinary resolution discloses a total depletion of the mortuary fund and of the contingent fund which formed part of it of $521,400.23, including interest, and a total depletion of the sick and funeral fund of $230,534.44, including the money 'loaned' to the orphans' home fund. It recognizes the impossibility of discharging those enormous obligations without suspending or seriously embarrassing the society's work. It proposes an impossible and absurd security, which was never given. It spreads the payments over a period of twenty-four years. At the date of the examination of the Supreme Chief Ranger upon this subject, September 19, 1906, nothing whatever seems to have been done towards preparing to meet the first payment. The resolution and its express requirements in this respect appear to have been completely ignored.

With regard to the curtailment of expenditure, the executive council on April 9, 1906, purporting to act upon the recommendation of the Supreme Chief Ranger, though he denies that he agreed in the policy, resolved to practically abandon the whole foreign field, and to confine the expenditure of money for organization or extension purposes to Canada and the United States. In terms, the resolutions embodying this alteration in policy provided for the closing of the India office, the discontinuance of all further work in France and the confining to Canada and the United States of

expenditure in the organizing field. The membership in the jurisdictions expressly abandoned will probably, in the absence of organization, dwindle and disappear. In the jurisdictions which have not been expressly abandoned there seems no reason to doubt that the discontinuance of large organizing expenditure will make itself felt in general apathy and a consequently reduced membership. Business which required so great an artificial stimulus to create results so disproportionate can better the general interests of the order only by its depth.

Such is the history of an ill-advised and extravagant attempt to carry the fraternal methods of this order into foreign and unsuitable fields, and of the consequent breach in its mortuary resources, a breach whose healing up to September 19, 1906, rested solely upon the resolutions of an executive which for years had been passing similar resolutions only to break them.

The meetings of the Supreme Court have always been unduly expensive, on two occasions so much so as to be startling. In 1895 the meeting was held in London. On this occasion a steamship was chartered to carry the delegates, or some of them, from Canada and the United States. To quote an expression used by the Supreme Chief Ranger, there was always 'money to burn' when the order was to be advertised. The meeting that year cost the order $71,857.26.

In 1898 Toronto was the place of meeting. The cost of that meeting, no doubt partly because of the place of meeting being central in situation, was $32,843.34. In 1902, when the Supreme Court visited Los Angeles, the meeting cost the order no less a sum than $88,871.69. In 1905, meeting at Atlantic City, the cost was $39,767.12.

The Supreme Chief Ranger states that it has been determined that, for the future, all Supreme Court meetings shall convene at Toronto.

The salaries of the chief officers have been as follows:—

—	1896.	1897.	1898.
	$ cts.	$ cts.	$ cts.
Oronhyatekha, M.D., S.C.R.	10,833 29	9,999 96	9,999 98
John A. McGillivray, S.S.	6,000 00	6,000 00	6,000 00
H. A. Collins, S.T.	1,999 92	1,999 92	2,249 94
Dr. T. Millman, S.P.	6,000 00	6,500 00	6,000 00
B. W. Greer, S. Auditor	1,100 00	1,500 00	1,250 00
C. R. Fitzgerald, S. Auditor	1,000 00	1,000 00	1,750 00
	26,933 21	26,999 88	27,249 92
	1899.	1900.	1901.
Oronhyatekha, M.D., S.C.R.	16,666 60	3,353 32	9,999 96
John A. McGillivray, S.S.	6,000 00	6,000 00	6,000 00
H. A. Collins, S.T.	2,499 96	2,499 96	2,499 96
Dr. T. Millman, S.P.	6,000 00	6,000 00	6,000 00
B. W. Greer, S. Auditor	3,500 00	2,000 00	2,000 00
C. R. Fitzgerald, S. Auditor	2,500 00	2,000 00	2,000 00
	37,166 56	21,833 28	28,499 92

	1902.	1903.	1904.	1905.
	$ cts.	$ cts.	$ cts.	$ cts.
Oronhyatekha, M.D., S.C.R.	9,999 96	9,999 96	8,333 30	12,083 31
John A. McGillivray, S.S.	6,000 00	5,500 00	6,500 00	6,416 65
H. A. Collins, S.T.	2,499 96	2,499 96	2,499 96	4,374 96
Dr. T. Millman, S.P.	6,000 00	6,000 00	6,000 00	6,416 65
B. W. Greer, S. Auditor	2,200 00	2,000 00	2,000 00	1,999 99
C. R. Fitzgerald, S. Auditor	2,200 00	2,500 00	2,000 00	1,999 99
C. H. Rae	729 29	6,083 26	5,369 31	1,683 32
Dr. A. Oronhyatekha	150 00	....	....	....
	29,779 91	34,083 18	32,702 57	34,974 87

The salaries, wages and organizing expenditures for the ten years, 1896 to 1905, were as follows:—

Salaries	$322,330
Office employees' wages	600,504
Organizers' salaries	945,549
Organizing expenses	771,496
Bonuses and commissions to organizers	76,304
	$2,716,183

The official organ, 'The Forester,' during the same period cost $345,401.

The Orphans' Home has cost about $230,000, $100,000 of which was 'borrowed' from the sick and funeral fund, and $50,000 from the Standard Bank.

The executive established and maintained a restaurant which was finally closed up at a loss of $41,387.

When the Temple building was projected in 1895 the power to hold real estate was limited to a value of $100,000. The estimate of cost was between $700,000 and $800,-000. The statutory limitation had no terrors for the Supreme Chief Ranger. He says (page 2330):—

> 'We just went right on with the building. . . . . . expecting at some future date that parliament would get wiser and give us the power to hold our property here.'

The executive council had determined upon the scheme of its own initiative and purchased part of the land upon which the building was to be erected before submitting the plan to the Supreme Court, which was done in August, 1895.

In 1896 the legislation authorizing the holding of real estate to an extent sufficient to cover the estimated cost was sought, but parliament deemed $350,000 sufficient for all reasonable purposes and made that sum the limit. This was not permitted to make any real difference in the plans of the executive, though various devices were adopted to disguise their defiance of parliament. A Miss Bailey, who was a clerk in the head office, figured as a purchaser of one parcel of land which she went through the form of mortgaging to the order for $200,000. When the statutory limit was raised to $350,000, she promptly conveyed to the order, and was paid $1,000 for her assistance.

The creation of the Ontario Realty Company was the next device adopted. The sole purpose of its creation was to evade the Statute. To it was conveyed an undivided two-fifths interest in the property for the ostensible consideration of $240,000, a mortgage back for that sum being given. The building was then about completed and the cost then of land and buildings was estimated at such a sum as would bring the remaining three-fifths within the statutory limit of $350,000. When the land for the building annex was purchased, Mr. Hunter, the general solicitor of the order, was the nominal purchaser, mortgaging as in the former instance, and the land stood in his name from the date of purchase, January 15, 1898, till the Act of 1901 was passed, by which the holding power was extended to an annual value of $30,000. The Supreme Chief Ranger says:—

> 'It was not safe to transfer the property over to us, because of its increasing the amount of our holding powers probably beyond the Act.'

The Statute of 1901 was assented to on April 15, 1901. On the following day the Ontario Realty Company conveyed its holding to the order and Mr. Hunter conveyed his holding during the following month.

The total amount expended in land and buildings was $951,509.49, of which $92,880.68 was written off in December, 1899, and $144,177.99 in December, 1900, leaving the book value of the asset $714,450.82.

The history of the order in respect of its investments since 1901, is the history of the Union Trust Company. On January 6, 1900, the Executive Council resolved:

> 'That we purchase a controlling interest in the Provincial Trust Corporation of Ontario by the purchase of its stock from time to time as we can secure the same with the view of obtaining said control at the earliest possible date.'

This resolution is the only direct sanction preceding what became ultimately an investment, in capital stock alone, of no less than $2,745,600 of the funds of the Order. The Provincial Trust Corporation was a moribund institution with a capital originally small, and which had become much impaired. Its assets represented 65 cents on the dollar of its paid up capital of $113,700.

Mr. William Laidlaw, K.C., was employed by the Supreme Chief Ranger to secure the control of this corporation, and Mr. Matthew Wilson, K.C., who was one of its directors, was entrusted by his fellow directors with negotiating the sale of such control. Under their guidance the scheme rapidly grew, until it became a scheme for the acquisition by the Order of the whole of the capital stock. When this object had been attained the scheme became still more ambitious. A new company with a capitalization of $1,000,000 paid up stock was to be built upon the ruins of the old. But while the petition for incorporation was under consideration by the Governor in Council this capitalization was increased to $2,000,000. At first the public was to be invited to contribute to the capitalization, but as the possibilities of the scheme developed, its authors accustomed themselves to less generous views, until ultimately the Order itself became sole holder of the capital stock (buying at 110) save forty shares, subscribed and paid for by the late Judge McDougall, the Hon. George E. Foster, Mr. Matthew Wilson, K.C., and Colonel John I. Davidson, each of whom took ten shares, and a seat on the board. The objection raised by the Ontario Government to the issue of an additional Trust Company charter was surmounted by a surrender of the charter of the old company.

It is not to be supposed that the promoters of this investment were indifferent to the fact that the capital funds embarked were not any longer to be confined to the classes of investment permitted by the Insurance Act. They could not, as money of the Order, be laid out in speculative schemes, but as money of the Trust Company they were supposed to have been enfranchised and to be available for any scheme, however foreign to the trust upon which they were held.

Nor is it to be wondered at that in the development of this enterprise private advantages were regarded, and those of the Order disregarded. Mr. Wilson in these negotiations, as in later cases, was paid by both sides. The Union Trust Company, to which (according to the affidavit of Mr. Foster when the old charter was surrendered) had been transferred all the assets of the Provincial Trust Company, succeeded in unloading upon the Foresters, in a manner which no witness has ventured to explain, such of those assets as were considered bad or doubtful.

It was attempted to account for the creation of this company as a sort of investing department of the Foresters. This explanation might have applied to the original scheme, which was to obtain a controlling interest in the small capital stock of the Provincial Trust Company, though an investing department might well have been organized and equipped without even that outlay. But it appears impossible to attribute the scheme in its final development to any such idea. The purpose then was undoubtedly to embark in speculative transactions.

Mr. Foster, who was invited to become the managing director, and whose financial experience was great, says in his letter to the Supreme Chief Ranger, of April 30, 1901:—

> 'I have thought carefully over the matter from my own standpoint and from that of the company and of the Order of which you are the head and its large and steadily increasing financial interests which necessitate great care and responsibility

in the matter of investments. It seems to me that a trust company with a small paid-up capital and depending alone on the general field for its business would require many years and much hard work to place itself in position to return any considerable profit to its shareholders. The field is not a wide one, and is already pretty well occupied by older and well established companies. . . . . To make our business foundation broad and firm we should make sure of a generous paid-up capital so as to give confidence to our patrons and provide a basis for operations on an active and enterprising scale. We cannot afford to go limping along at slow gait.'

The letter concludes:—

'I can see the elements of a powerful and profitable combination if we can only bring them together.'

There is nothing uncertain in the policy so outlined and advised, and it was the policy which, in its development, determined the status of the Union Trust Company as a large and bold operator with the moneys of the Foresters forming its capital.

The company was not intended to obtrude its paternity upon the public with whom it was to do business, nor was it deemed prudent that the personnel of its directorate should indicate its real relation to the Order. In his letter of May 27, 1901, Mr. Foster advises:—

'But whilst in reality the Trust Company will be controlled by the Foresters, it is not best that that point should be emphasized to the public—but rather the contrary. To that end we should, I think, be most careful in the selection of directors.'

Accordingly, when the company organized in September, 1901, out of the board of seven, four were the gentlemen already mentioned, gentlemen whose names had not in any way been identified with the Order, viz.: Judge McDougall, Mr. Foster, Mr. Wilson and Colonel Davidson. All of them owned their qualifying stock. The changes made in the board down to the commencement of this inquiry were two in number. Sir John Boyd, the Chancellor of Ontario, succeeded Judge McDougall on the latter's death, in February, 1903, purchasing the qualifying stock from Judge McDougall's estate. In the annual meeting of shareholders in February, 1905, the Hon. George W. Ross was added to the board, purchasing shares to the number of ten. The Chancellor retired in October, 1905.

Upon the organization of the company in September, 1901, an agreement was made between the Order and the company by which all uninvested surplus cash funds of the Order were to be handed over to the company for investment in the name of the Order and in investments authorized by the Insurance Act. The company guaranteed the investments and a 4 per cent rate, retaining as remuneration all interest realized in excess of 4 per cent.

Thus the Union Trust Company became a great engine of investment for the Foresters. No limitation upon investments was made with reference to the Insurance Act so far as the moneys of the Foresters took the form of capital stock. The operations of the company were bold and multifarious, embracing timber limits, saw-mills, western lands, United States railway securities, residential flats and loans and other assistance to officers in their private speculations.

Of United States railway and foundry securities alone the company held on December 31, 1905, at a cost of $449,109.68, securities whose estimated value was then only $347,500.

The company at the same date had, besides, the following assets:—

Kamloops Lumber Co.	$ 315,000 00
Alexandra Palace shares.	150,000 00
Alexandra Palace stock.	130,000 00
Improved Realty Co's stock.	60,000 00

Union Bank shares	168,000 00
Northern Bank shares	50,000 00
Nanaimo bonds	26,005 00
Crow's Nest Pass Coal	12,500 00
Total	$ 911,505 00
which, added to the above	449,109 68
Makes a total	$1,360,614 68

On October 6, 1902, the directors passed a by-law, ratified by the shareholders on November 1, of same year, increasing a previous borrowing of $200,000 from the banks to $400,000. This borrowing was principally to enable the company to carry speculative securities. Besides this special borrowing, it overdrew its account with the Standard Bank to the extent of about $210,000, and borrowed $259,000 from the Traders Bank, the last sum being borrowed to enable a loan on Crow's Nest Coal stock to be carried by certain gentlemen, one of whom was the general solicitor for the company.

In February, 1904, the directors called up the unpaid 50 per cent of the original $2,000,000 capital, and in December, 1905, they took power to increase the capital to $2,500,000, the new capital being all taken up by the Foresters at 110. This transaction enabled them to pay off that sum upon the public liabilities of the company and to lay before the shareholders a statement of assets and liabilities showing a gain of $8,955 on profit and loss account. These increments to the company's resources were sometimes conveniently made to enable the company to proceed with great speculations, and sometimes rendered necessary in order to the discharge of the company's obligations.

In March, 1902, Dr. Montague, who was then Deputy Supreme Chief Ranger of the order, took up the idea of making a large purchase of lands in Manitoba and the Northwest. He associated with him in interest the Supreme Chief Ranger, the Supreme Secretary and Mr. Foster, the managing director of the Union Trust Company. The idea involved borrowing from the order the funds necessary.

In the minutes of March 28, 1902, which authorized the loan, the land is spoken of as 100,000 acres, and the loan as $4 per acre. But when, on May 1, 1903, to carry the speculation, the lands, which appear then to have been conveyed to Dr. Montague, were mortgaged by him to the order, they were 44,267 acres, and the moneys covered by the mortgage and which then formed the subject of the speculation, were $133,000.

The lands were on the same day conveyed in trust to the Union Trust Company, and the ultimate trust, subject to the mortgage, appears to have been in favour of the four gentlemen named, though they are not named as beneficiaries in the trust deed.

The Trust Company seems to have subsequently been made the depository of further cash advances by the order, to be handed over to the syndicate of four to buy further lands. Accordingly, in 1903, the syndicate purchased what were known as the Carrot River lands, amounting to 40,960 acres, at $5 per acre, the money being found by the Independent Order of Foresters and the lands being conveyed to the Union Trust Company in trust. In the same year, 65,280 acres were purchased for $322,336 from Mr. Aird, of Winnipeg, the Independent Order of Foresters advancing to the Trust Company, and the latter taking a conveyance in trust for the syndicate. All these advances as made, were supposed to be added to the mortgage security to which reference has already been made. The Swan River lands were similarly purchased in the same year, the quantity being 9,920 acres and the price $52,080, and the conveyancing being arranged as in the other cases.

In connection with the purchase of the Carrot River lands, a commission of $10,000 was due by the vendors to one Pritchard, their agent. Of this commission Mr. Foster received one-half, or $5,000, causing a cheque of the Union Trust Company to issue to his order for the amount, and deducting it from the first payment to the vendors. This, he says, he divided equally among the members of the syndicate, and

he speaks of it as a reduction, made by reason of his efforts, in the price of the land, rather than as a commission. His account of the matter is given at pp. 2646 and 2647. Mr. Bettes, who was acting for the vendors, the Ontario, Manitoba and Western Land Company, and whose account is given at pp. 3023 to 3029, denies that there were any negotiations whatever for a reduction in the price, and states that the price was always $5 per acre, out of which 25 cents per acre, or $10,000, would be allowed to the vendor's agent by way of commission, and he produces an order by Pritchard to pay Foster or the Union Trust Company the $5,000, Pritchard signing at the same time a receipt, also produced, for the whole $10,000 commission, the other half of which was then paid him by the vendors. Pritchard, whose account is given at pp. 3041-3042, declares that he corresponded with Foster, offering the lands at $5 per acre as agent of the vendors, that he subsequently offered Foster to 'split' his commission 'in two,' that this offer was not the result of any discussion or beating down of the price, and he adds that, of the $5,000 which he himself received as commission, Hon. Mr. Campbell, the Attorney General of Manitoba and the president of the vendor company, stipulated for and received one-fifth, or $1,000. Mr. Campbell's explanation of this will be found at pp. 3136-3140.

Assuming the money to have represented a reduction in price, it seems difficult, in view of the trust upon which the Union Trust Company, to its managing director's knowledge, held these funds, to understand the division of any portion of them among the borrowing syndicate. What the moneys were deposited with him for was to purchase land to add to the security held by the Independent Order of Foresters.

A similar incident took place in the course of carrying out the purchase of the Swan River lands. The vendor there was Hon. Mr. Roblin, Premier of Manitoba. They were vested in a professional gentleman, Mr. Whitla, who was Mr. Roblin's trustee. Pritchard was Mr. Roblin's private secretary, and asked Mr. Roblin for permission to effect a sale of them which was given him. Pritchard brought Mr. Foster and Mr. Whitla together. The price offered by Mr. Foster in his letter to Pritchard of December 23, 1903 (Exhibit 666), was $5.25 per acre,

'with 25 cents per acre as commission, thus netting you $5 per acre.'

In his letter of January 5, 1904, to Mr. Whitla's firm, he reminds them that 25 cents per acre is to be paid as 'commission on sale,' and he says this can be deducted from the cash payment, which was $1.25 per acre or better;

'you can send a cheque therefor signed by the vendors in favour of myself.'

The reply asks him for a cheque for the cash payment, 'less commission as per agreement.' The cash payment was $1.25 per acre on the 9,920 acres, or $12,400. For this Mr. Foster caused two cheques of the Union Trust Company to issue, for $9,920, or $1 per acre, to Mr. Whitla, and for $2,480, or 25 cents per acre to himself. In his letter of February 2, 1904, Mr. Whitla, inclosing the cheque for $9,920, he says he is 'retaining the $2,480 commission.' The witnesses as to the transaction are Mr. Foster, pp. 2647-2648. Mr. Roblin, pp. 3131 *et seq.*, and Mr. Pritchard, pp. 3046-3048. They differ in some respects, but the main features of the transaction are not affected by these differences. The $2,480 received by Mr. Foster was not in this case divided with the other members of the syndicate, but is professed to be held to await the final settlement of their accounts *inter se*. It is not apparently anywhere on deposit, or earmarked in any tangible form, and its diversion to either the private account of Mr. Foster or to the account of the syndicate was, like that of the $5,000, inconsistent with the trust upon which the funds were held.

In an alternative view both these instances may be treated from the standpoint of the duty of Mr. Foster to his employer, the Union Trust Company. His right to make a commission or profit out of the business that company was transacting as trustee cannot stand upon any higher ground than in the case of its beneficial business. These instances may, therefore, well fall within the principles of criticism applied by Mr. Stevenson in his correspondence with the Chancellor (Exhibit 565), to

Mr. Foster's proposal to receive commission on purchases made by the Union Trust Company, to which principles Mr Foster professes to have given his cheerful and immediate adhesion, pp. 2635 and 2636.

Indeed, if Mr. Foster had borne in mind the drastic dealing of the Union Trust Company's board at an early meeting, held on December 7, 1901, in the case of the company's solicitor receiving similar commissions or fees, he would have avoided both of these transactions. He was present at the meeting, and no doubt recorded the minute in which it is remarked,

> 'that it is a very unsafe and unwise practice that anyone employed by them should receive a commission from the opposite side, and the adoption of any such principle is utterly opposed to the universal practice.'

Subsequently, in April, 1904, owing to an objection made by Mr. Stevenson in another matter to the officers of the Trust Company becoming personally interested in matters financed by the company, a halt seems to have been called, and Dr. Montague, the Supreme Chief Ranger, the Supreme Secretary and Mr. Foster agreed to abandon to the company at cost all the lands not embraced in the original transaction regarding the 44,267 acres. Mr. Foster says (page 2652) that he agreed cheerfully to this, but under the impression that his doing so would emphasize the syndicate's title to the 44,267 acres.

In December, 1905, the original purchase was also given up. This was carried out by Dr. Montague (for whom, subject to the Independent Order of Foresters mortgage, the Union Trust Company formally held the lands in trust, though he was himself trustee for the syndicate), releasing to the Union Trust Company, which took over the syndicate rights at cost. That company subsequently disposed of these and other holdings to a syndicate of which Dr. Montague was a member, but to which none of the other members of the original syndicate belonged, at such a price as to satisfy the amount due upon the Independent Order of Foresters mortgage and realize a large profit to the Union Trust Company.

Down to the date of his testimony before the Commission Mr. Foster's attitude towards this surrender would appear to have been hostile. The form the conveyancing took did not necessitate his actual execution of any release, and though his consent seems to have been finally given, after earnest protests, yet it was given, he says, most reluctantly, he not deeming it inconsistent with his relations to the company, and the company's relations to the Independent Order of Foresters, that he should occupy the position which he so unwillingly gave up.

Late in the fall of 1903, Messrs. Rufus H. Pope and George W. Fowler commenced negotiations with the Canadian Pacific Railway Company, for the purchase of a large tract of railway subsidy lands on behalf of a syndicate including Messrs. W. H. Bennett and A. A. Lefurgey. The result of these negotiations was a verbal arrangement by which they became entitled, upon making a certain deposit, to have an option to select at $3.50 per acre, 200,000 acres, out of a larger area which was then supposed to be approximately 225,000 acres.

The purchase money, $700,000, was to be paid as follows: a deposit of $20,000 in cash, a further sum of $40,000 by May 15, 1903, and, by June 1, 1903, a further sum of $56,666.66, being the balance of the first instalment; the remaining instalments being distributed equally over five further years, with interest. The terms of payment were the ordinary terms upon which the railway company was then disposing of its land.

A map, showing the area out of which the selection might be made, was sent on February 4, 1903, by the land commissioner of the company at Winnipeg to Messrs. Pope and Fowler. There seems, however, to have been some misunderstanding with regard to the cash deposit, and upon time being asked for its payment the land commissioner declined to give such time and notified Messrs. Pope and Fowler that the matter was off, and that he intended to proceed to deal with the land without reference to what had taken place between them.

On April 6, 1903, negotiations were resumed, and it was arranged that, upon the required cash deposit of $20,000 being immediately made, the arrangement should again be set on foot, giving Messrs. Pope and Fowler till May 15 to examine and make the second payment of $40,000, and till June 1 to complete the first payment. Accordingly, on April 24 the cash payment was made, and for the first time the option was put in writing. It scheduled about 217,000 acres, and the right to select 200,000 acres from this larger area was what the option covered.

That the land selected should be average lands only was secured by the Railway Company itself reserving about 25 per cent of the total area in lands of average value, and omitting this reservation from the lands scheduled; and by a stipulation that if any lands whatever were selected in any particular township in the schedule, all lands scheduled in that township must be taken. This agreement is Exhibit 668, and is dated April 24, 1903.

On the following day the Land Commissioner offered Messrs. Pope and Fowler the whole of the excess over 200,000 acres of the land from which under the option they were entitled to select, at the same price, $3.50 per acre, and this offer was accepted by letter of April 30, 1903.

In their efforts to finance the undertaking, Messrs. Pope and Fowler were brought into communication with some of the persons interested in an Ontario corporation known as the New Ontario Farm and Town Site Syndicate, whose incorporation had taken place on March 25, 1903. There were five shareholders in this corporation, each of whom owned one share of its stock, and it was said to have had some options in connection with lands in Ontario which were not supposed to be of any value. In the course of negotiations between the Pope and Fowler syndicate and this company, under circumstances and for reasons which have not been made clear to the Commission, Mr. Foster, the General Manager of the Union Trust Company, and Mr. McGillivray and Mr. Wilson, who were directors of the Union Trust Company, found their services enlisted. It has not been possible to ascertain with certainty the date at which this took place, but, allowing for the time which might naturally be expected to be spent in negotiations, and having regard to the fact that the matter was put in definite concrete form on May 30, it is, perhaps, not unreasonable to suppose that this happened at or about the time when Messrs. Pope and Fowler took the option of April 24 This would allow about a month for the negotiations.

It is stated by Mr. Foster and also by Mr. Wilson that in the earlier stages it was intended to finance the matter without reference to the Union Trust Company, it being expected that one-half of the financing would be taken care of by Messrs. Foster, McGillivray and Wilson, and the other half by the persons composing the New Ontario Farm and Town Sites Syndicate. This, it is said, fell through, however, because the latter found themselves unable to carry their share of the transaction.

That the Union Trust Company was at an early stage of these negotiations intended to have some relation to the transaction, is shown by the circumstances that on May 20, Mr. Fowler was in correspondence with Mr. J. W. Curry, the solicitor for the New Ontario Company, exchanging and revising a draft agreement in which the Union Trust Company was named as the trustee to whom Pope and Fowler were to transfer the option, the beneficiaries of the trust not being disclosed upon the face of the document.

On May 30, 1903, this conveyance was completed (it is part of Exhibit 483). By it Messrs. Pope and Fowler transferred to the Union Trust Company as trustee the right or option to inspect, examine and purchase the lands mentioned in the agreement between Messrs. Pope and Fowler and the Canadian Pacific Railway Company of April 24, 1903, at a price which was to net them a profit of $1 per acre over the $3.50 which they were to pay to the Railway Company. Messrs, Pope and Fowler were not, however, intending to part with the whole 217,000 acres for which they had bargained with the railway company, nor even with the whole 200,000 acres which were spoken of in the agreement. The method of conveyancing adopted was to attach

to the agreement with the Trust Company a copy of the agreement of April 24 with the railway company, and a new schedule, covering approximately 193,000 acres only, omitting altogether the schedule covering 217,000 acres attached to the agreement of April 24. Messrs. Pope and Fowler had selected for retention some 6,500 acres as being contiguous to the anticipated and projected line of railway, and as having, therefore, peculiar advantages, and they were also, at this date, retaining the difference between the sum of those two acreages, 193,000 and 6,500, and the whole 217,000 upon which they had the option. None of the persons with whom they were negotiating seem to have been made aware that either of these reservations had been made.

It seems highly probable that on May 15, when Messrs. Pope and Fowler paid the second instalment, $40,000, of the cash payment and took up the option, matters had so far progressed that they were quite certain the matter would be financed; indeed the agreement recites a payment to Pope and Fowler by the Union Trust Company of $23,520, and provides for the payment by the company of a further sum of $33,146.66 by July 1, 1903, beyond which date they had then arranged with the railway company to extend the time for completing the first instalment. These two sums, together with the $60,000 which Pope and Fowler had already paid and which, by the terms of the agreement, was to be refunded to them, made up the total first instalment of $116,-666.66 payable to the railway company.

By this agreement it was further provided that Messrs. Pope and Fowler were to be paid the $1 per acre, approximately $200,000, profit, $50,000 in stock of the New Ontario Farm and Town Sites Syndicate, and the balance as follows: one-sixth or approximately $25,000 on November 1, 1903, and the rest in five instalments of approximately $25,000 each, payable at the dates at which the instalments of purchase money were payable to the railway company. It also stipulates that if the lands are passed on to the New Ontario Company at a further advance of 50 cents per acre, they shall receive a further block of $5,000 paid-up stock in that company.

The avowed intention of Messrs. Foster, McGillivray and Wilson from the beginning was to make the profit last named of 50 cents per acre for themselves, and it is difficult to believe that the beneficiaries undisclosed in the agreement of May 30, for whom the Union Trust Company was made trustee were not intended to be Messrs. Foster, McGillivray and Wilson, subject, of course, to their getting in such rights as the old members of the New Ontario syndicate, who had failed to finance their half of the proposition, might still be entitled to maintain.

Mr. Foster thinks that when this agreement was made, on May 30, 1903, and up to June 4, when certain further conveyancing took place, to which reference will be made in a moment, there had been no idea of the Trust Company being brought in to advance moneys. He is, however, manifestly mistaken with regard to this, because on June 3, he brought, as manager, before the board of the Union Trust Company, the very proposition that that company should loan to the New Ontario Syndicate a sum not to exceed $140,000, for the manifest purpose of enabling the agreement of May 30 to be carried out. The resolution, so far as material, is as follows:—

> 'The manager laid before the directors two propositions for investing in lands in the Northwest which were approved in principle. The first in reference to the New Ontario Farm and Town Sites Syndicate Land Company . . . . . . to loan to the New Ontario Farm and Town Sites Syndicate Land Company, Limited, capitalized at $1,000,000, on the security of the lands and assets, a sum of money not to exceed $140,000, at a rate not to exceed 6 per cent per annum. The Union Trust Company is to have the option of taking fully paid-up stock at par for the whole or any part of this advance and interest thereon, and is to receive in addition as a bonus 237½ shares of $100 each, par value, of the paid-up capital stock of the company.'

When, therefore, the conveyancing of June 4 is approached, it is manifest that the Union Trust Company had become bound to finance the proposition. There is no reference in the minute to the personal interest of Messrs. Foster, McGillivray and Wilson.

On June 4, they entered into an agreement to extinguish any title to the Pope and Fowler option that might remain in the members of the New Ontario Syndicate, and for the acquisition of the charter rights and powers of that company. For the first time their names appear upon record. They are recited to be entitled to one-half interest in the Pope and Fowler option, which is recited to have been conveyed to the Union Trust Company by the agreement of May 30. The agreement also recites that some of the other parties to it, who are mainly members of the New Ontario Company, are entitled to the other half interest, and provides that Messrs. Foster, McGillivray and Wilson are thenceforth to be the sole and only persons interested in the option, and that the Union Trust Company, the trustee, shall hold the option for their sole use and benefit; that the charter of the New Ontario Company shall be assigned to or vested in them or put under their control, by having them or their nominees made directors; the five shareholders of the company remaining members to the same amount of stock, $100 each, which they theretofore held. Messrs. Foster, McGillivray and Wilson are to either form a new company or work the old company, and the lands are to be handled at such an advance as to net to them 950 shares, or $95,000 of paid-up stock over and above what the option and lands have cost them, whereupon 100 shares out of the 950 are to be handed over to the other parties to the agreement, being mainly members of the old syndicate, to deal with as they may agree. On the same day they did agree to a distribution of the one hundred shares among themselves.

The change in the ownership of the charter was effected on June 11, at a meeting of the five shareholders of the New Ontario Company, at which an offer made by Mr. Foster, on behalf of himself and Messrs. McGillivray and Wilson, was accepted. That offer is dated June 10, and is to the effect that in consideration of the allotment of 1,000 shares as follows: 10 to Mr. Foster, 10 to Mr. McGillivray, 10 to Mr. Wilson, and 970 to the Union Trust Company in trust for parties interested as may be set out in the schedule to the trust deed, they will transfer the Pope and Fowler option, of which they are now the sole owners, to the New Ontario Syndicate. There is a further stipulation that Messrs. Foster, McGillivray and Wilson, Sir John Boyd, the Hon. Robert Rogers and C. F. Scholfield are to be appointed directors of the company and to get one qualifying share each out of the thirty which are stipulated to be allotted to Messrs. Foster, McGillivray and Wilson. The offer being accepted, the shares were allotted accordingly, the directors resigned and the new directors stipulated for were elected.

On June 22 an agreement was made which was intended to sum up and put upon the intended footing the whole of the stock. Messrs. Foster, McGillivray and Wilson, who are described as 'owners,' are parties of the first part; the Union Trust Company, 'bankers,' parties of the second part; Dr. Oronhyatekha, Sir John Boyd, Hon. Robert Rogers, Mr. Scholfield and Messrs. Foster, McGillivray and Wilson, 'shareholders,' of the third part, and the New Ontario Company of the fourth part. The whole option is assigned to the company, which is to make all payments upon the option and is to allot paid-up shares, in addition to the $50,000 of stock which Messrs. Pope and Fowler were to receive as 25 per cent of their $1 profit per acre as follows:—

			Shares.	Amount.
				$
Total shareholding representing 50 cents profit on 200,000 acres			1,000	100,000
Allotted to Messrs. Pope and Fowler in respect of this profit			50	5,000
Balance belonging to Messrs. Foster, McGillivray and Wilson			950	95,000
Allot to Foster	10	1,000		
" McGillivray	10	1,000		
" Wilson	10	1,000		
Sir John Boyd (qual.)	10	1,000		
Hon. R. Rogers (qual.)	10	1,000		
Mr. Scholfield (qual.)	10	1,000		
			60	6,000
			890	89,000
Allot half of 890 to Foster, McGillivray and Wilson			445	44,500
			445	44,500
Allot to Dr. Oronhyatekha	100	10,000		
" Union Trust Co. (bonus)	237½	23,750		
" members New Ontario Syndicate and others to extinguish their title	100	10,000		
			437½	43,750
Balance odd shares allotted to Mr. Foster			7½	750

The allotment to Dr. Oronhyatekha of 100 shares is not at all clearly explained, but he deems himself to have been a trustee of it, either for the Foresters or for the Union Trust Company. It will be observed that the 237½ bonus shares given to the Trust Company was 25 per cent of the total holding of Messrs. Foster, McGillivray and Wilson, 950 shares.

In addition to the above stock, which was all in respect of the 50 cents profit, Mr. Foster says that it was understood with regard to Sir John Boyd, Hon. Robert Rogers and Mr. Scholfield, that, while 10 shares each were given as qualifying them, they should also each subscribe for other 40 shares. Mr. Rogers does not seem to have done so, but Sir John Boyd and Mr. Scholfield each applied for and had allotted 40 additional shares. Sir John Boyd states that his 40 shares were paid for in full. Mr. Schofield states that he has paid $2,000 on account of his 40 shares, and that it was understood that he should not be required to pay more. These two sums are the only sums of money which were paid for any of the stock issued by this company, save possibly in their origin the original five shares of the old members.

On the same day, June 22, a meeting of the shareholders of the New Ontario Syndicate was held at which the agreement was confirmed. The directors were increased to nine, Messrs. Pope, Fowler and Lefurgey being added to the board.

At the meeting of the directors of the Union Trust Company, of June 23, 1903, the manager is stated to have reported that arrangements had been completed for the transfer to the Trust Company of the agreed stock, and it is also stated that the manager explained that in pursuance of the resolution of the previous meeting, an agreement of June 22 has been prepared, whereby the Trust Company becomes trustee for and advances money to the New Ontario Syndicate and becomes secretary-treasurer thereof, and that the Trust Company has received 237½ shares and is to have a reasonable rate of interest on advances, with the option to take stock for same. The board authorized the execution of the agreement, and limited the advances, until further resolution, to $140,000. In this minute no reference is made to the interests of Messrs. Foster, McGillivray and Wilson. At the meeting of July 9, however, the general manager reported that Pope and Fowler and the Canadian Pacific Railway were conveying directly to the New Ontario Syndicate instead of circuitously through Messrs. Foster, McGillivray and Wilson. This is the first mention of the names of these gentlemen in the minutes in connection with this transaction.

On the 21st July, the name of the New Ontario Syndicate was changed to the 'Great West Land Company, Limited.' Later in the same month Messrs. Pope and

Fowler gave directions to the railway company to convey certain blocks of land in pursuance of the dealings that had taken place.

An immaterial distinction was made in the conveyancing between 'main line' and 'branch line' subsidy lands. Two blocks, totalling, as then supposed, 193,947.49 acres were accordingly conveyed, being the lands which had been put in the Pope and Fowler schedule, substituted for the C. P. R. schedule when the agreement of May 30 was made. About the same time Messrs. Pope and Fowler authorized the railway company to convey also 8,640 acres, and the conveyance was accordingly made. The arrangement with regard to this is stated to have been the same as with regard to the other lands, Messrs. Pope and Fowler turning them over directly to the company and receiving a profit of $1 per acre, and Messrs. Foster, McGillivray and Wilson receiving a profit of 50 cents per acre. At this date they were the sole members of the executive committee of the Great West Land Company—having been appointed at a directors' meeting of 22nd June, 1903, and the transaction, therefore, presents some peculiarities.

On the 9th July, 1903, Mr. Foster reported to a meeting of the board of the Great Land Company, at which the three members of the Executive and Mr. Schofield, were present, as follows:—

> 'that he learned that Messrs. Pope and Fowler held about 8,640 acres of land in proximity to the 200,000 acres heretofore bought, and that it is now found that the 200,000 acre block will, upon measurement under the terms of the last agreement between Messrs. Pope and Fowler and this company, fall short several thousand acres and that he thinks he can secure for this company at practically the same price per acre as this company pays for the 200,000 acres, the additional 8,640 acres.'

It was thereupon resolved that Mr. Foster be authorized to purchase the additional lands, paying therefor $5 per acre, $1 per acre in stock, paid up and non-assessable, and the balance in six yearly instalments, &c. The arrangement made between Messrs. Pope and Fowler and Mr. Foster with regard to this, and which was carried out, involved Messrs. Pope and Fowler making their profit of $1 and Messrs. Foster, McGillivray and Wilson theirs, of 50 cents per acre, as in the other case. The minute makes no disclosure whatever of the personal interest of the three members of the executive in the transaction.

The result was that $8,320 of the purchase money was paid in capital stock of the company (83⅓ shares) and the balance in cash. Of the 83⅓ shares of stock, 40 went to Messrs. Pope and Fowler and 43⅓ to Messrs. Foster, McGillivray and Wilson. These were divided, 14 to Foster, 14 to McGillivray, 14 to Wilson and 1⅓ to Foster in trust for himself and the other two. It does not appear that the personal interest of these gentlemen would ever have been disclosed had it not been discovered upon an inspection of the stock book of the Great West Land Company, to the production of which vigorous and prolonged objection was made (page 2621).

It should be borne in mind that in this transaction, as well as in the main transaction, the Union Trust Company was finding all the funds necessary to carry the lands.

Part of the remainder of the subsidy lands, 217,000 acres, originally covered by the final options, between the railway company and Messrs. Pope and Fowler, were turned over to one Bellhouse by the railway company upon the direction of Messrs. Pope and Fowler. The quantity of land embraced in that sale was 7,588·30 acres.

The following is a corrected table of the original 217,000 acres and their disposition:—

—	Original Estimate. (Acres.)	Quantity Finally Ascertained. (Acres.)
1. To G. W. Land Co.	44,339·25	44,245·99
2. "	149,598·24	147,427·20
3. "	6,610·00	8,643·00
4. Bellhouse sale	7,588·30	7,588·30
5. Still retained by Messrs. Pope and Fowler unsold	6,533·39	6,533·39
Total	216,699·18	214,437·86

The policy of the Union Trust Company Board with respect to exercising the option to take security for the advance or to take stock at par seems to have been somewhat vacillating. Messrs. Foster, McGillivray and Wilson were still members of the board, and the lands, which it had originally been expected would be sold off within a few months, remained on hand. On January 1, 1904, the Inspection Committee of the Board reported that the total advances up to that date were $146,601.71, of which $1,400 had been converted into capital stock and $145,201.71 remained as a secured loan.

On the 26th March of the same year the Board resolved to exercise the option by taking stock for all the advances to be made under the agreement, and the resolution proceeds 'does hereby take stock for the amount heretofore advanced.' The lands had then been on hand for nearly a year.

On December 16 of the same year the two companies entered into an agreement reciting the resolution of March 26, and the allotment of stock for advances under it from time to time, and went on to provide that the land company should and it did thereby grant to the Trust Company the agreements held under the railway company and under Messrs. Pope and Fowler as purchasers, and the subsequent agreement between the railway company and the Trust Company, and all the lands mentioned therein and all rights thereunder, all rights to unpaid calls on stock and all other assets of the company, as security against all sums heretofore or hereafter advanced under the agreement of June 22, 1903, but that any payments or advances made by the Trust Company for which stock had been or should be thereafter allotted, should not be deemed to be a liability within the meaning of the agreement.

On May 20, 1905, another resolution was passed by the Trust Company board to the effect that the Trust Company should advance to the land company up to $900,000, taking as security 6 per cent bonds of the company, based upon a first mortgage on all its property. The lands were still unsold, and the Trust Company had received nothing in principal, interest or dividends.

Later in the same year Mr. Stevenson, becoming alarmed at the enormous sums of money belonging to the Trust Company then invested in lands in the Northwest, agitated in the Board for an alteration in its policy, and among other things seems to have advocated turning all the advances made to the land company into an interest bearing mortgage. This, of course, involved the abandonment of the capital stock allotted in respect of these advances.

The matter came up for discussion at a meeting held on November 7, at which Messrs. Stevenson, Foster, McGillivray, Wilson, Davidson and Ross appear to have been present, but the matter was laid over to be further discussed at an adjourned meeting.

Minutes of the adjourned meeting are found in the minute book under date November 13, and it is recorded there at this meeting the same directors were present

who were present at the meeting of November 7. The minutes so recorded contain the following :—

'After a full discussion in reference to the Great West Land Company, it was decided, on motion by Hon. E. G. Stevenson, seconded by Lieutenant J. A. MacGillivray, that the Union Trust Company should assume the position of mortgagee with reference to its advances and payments to or for the Great West Land Company,'

had the resolution, as recorded, stopped at this point it would, no doubt, have quite embodied the policy then being advocated by Mr. Stevenson, but the resolution proceeds:

'instead of the stock received by the company and its president upon formation of the land company, and the stock received as representing payments and advances, the company and its president releasing to its original owners respectively the stock which had been acquired under the former arrangement as set forth in the agreement of June 22, 1903.'

This language is, perhaps, equivocal, but it has been assumed by those interested to be intended to provide for the abandonment to Messrs. Foster, MacGillivray and Wilson of the 237½ shares of bonus stock which was to be the reward to the Trust Company for financing the transaction, irrespective altogether of whether such financing was by way of loan or by way of purchase of capital stock, and of the 100 shares allotted to Dr. Oronhyatekha, who deems himself a trustee of them for the Trust Company or the Foresters. Mr. Stevenson is very reluctant to admit the paternity of this part of the resolution, and it is both remarkable and unfortunate that in the book kept for registering the attendance of directors, no signatures are found under date November 13, nor indeed is that date itself found in the book.

The recorded minutes proceed to instruct the solicitor—who was Mr. Mathew Wilson—to prepare the necessary papers to be executed by the officers of both companies.

The minute book records another meeting of the directors on November 28, 1905, at which Messrs. Foster, MacGillivray and Wilson, together with Directors Ross and Davidson, are recorded as being present. In the minutes of that meeting occurs the following :—

'The solicitor of the company, pursuant to the instructions of the Board at its *meeting of November* 7, read an agreement and mortgage as between the Union Trust Company and the Great West Land Company. After some discussion and amendment it was moved by Hon. G. W. Ross, seconded by Lieut-Col. J. Davidson, that the form of agreement between the Union Trust Company and the Great West Land Company as submitted by the solicitor, pursuant to the resolution passed at the last meeting of the directors, be adopted, and that the proper amount be filled in by the General Manager and the agreement executed and be submitted to the Great West Land Company for execution.

'It was also resolved that the form of mortgage and assignment from the Great West Land Company to the Union Trust Company, as submitted, be adopted, with the amendments made, and be executed after all blanks be filled in, and that the by-laws for that purpose be passed and that a meeting of the shareholders be forthwith called to consider the agreement and mortgage after the same shall have been adopted and executed by the Great West Land Company.'

The directors' attendance book contains no record of a meeting of this date, nor any signature of directors.

Undoubtedly a mortgage was prepared and executed, and undoubtedly a formal release and abandonment of all the stock representing advances was also prepared and executed. Nor is it at all in doubt that a formal assignment by the company and by the president, Dr. Oronhyatekha, was made to Messrs. Foster, McGillivray and Wilson of the 237½ and 100 shares respectively.

This was done in the absence from the country of both the president and Mr. Stevenson, the transfer of the stock held by the president being effected by means of a general power of attorney which he had left behind him. He professes not to have been aware at all of what was being done, and later addressed a letter to Mr. Matthew Wilson demanding a re-transfer of the 100 shares.

Mr. Stevenson had left on November 13—it is said immediately after the meeting recorded on that date—and was not present, of course, at the recorded meeting at which the direction of that date was carried out.

It is, perhaps, worthy of observation that there is no signature by way of subsequent confirmation to any of the minutes to which reference has been made, in the minute book itself. In the attendance book, between the meetings of November 7 and December 26, both of which are signed for, there is a blank of 25 lines, covering parts of two pages.

The directors who are recorded as being present at these meetings—with the exception of Mr. McGillivray—were all examined. Mr. Stevenson says (pp. 2387-2388) :—

'In what I said about the other matter' (referring to the giving up of the bonus stock) 'I have no hesitation in saying that while I did not understand the other matter was concluded or considered at all, I have no hesitation in saying the other gentlemen thought it was or that minute would not appear in that way. But I did not understand it in that way........I had not in mind the giving of it up, although I did not attach much importance to it.'

(Pages 2388-2389) :—

'Q. Was there at that meeting in connection with the resolution, which you are said to have moved, any discussion, any mention, to your recollection, of this bonus stock being given up?—A. My recollection is that there was not. I simply say that because when the matter came to my notice that it had been done, it was a surprise. I may say that I talked the matter over with Mr. Wilson since that time, quite recently, and Wilson thought I was a party to this agreement, and that I had approved of the agreement itself, and was very firm that the matter was within my knowledge. All I can say is that I did not understand it so...... As it seemed to me, we were to have the stock, whether we took the position of mortgagees or the holders of stock........I have given my recollection. That cannot be changed.'

(Page 3106, after the other directors had been examined) :—

'I have read very carefully all that has been said on that subject with a view of refreshing my recollection. I have recalled the circumstances of that day and I can only say that after going all over it I am confirmed in the view that I originally had, that I never understood that any stock was being turned over for the mortgage or on account of that transaction except the stock representing the cash advances, and that the bonus stock was never included or considered or thought of. My recollection in that respect is just in accord with Colonel Davidson's and Mr. Ross'.

Q. Would you say as to the possibility of any such resolution being made by you formally or informally at any meeting?—A. It is absolutely impossible. If I had written any such resolution as is said I certainly would have recalled it, because I would have had the matter in mind.

Q. And you say that no such resolution was prepared by you?—A. I say that no such resolution was prepared or offered by me.'

Colonel Davidson says, at page 2602 :—

'My recollection is the bonus stock was never discussed. I may be entirely wrong.

Q. You have no recollection of its being discussed?—A. No.

Q. Don't you think you would recall it, if such an important thing as that were discussed?—A. I would think so, but the idea of its not belonging to the Trust Company has never entered my head.'

The Hon. G. W. Ross says, at page 2615:—

'I do remember that we did discuss, as I said a moment ago, the question of unloading ourselves on these lands.

'Q. Do you remember at any time or at any meeting any discussion with regard to giving up the bonus stock which the Union Trust Company held, not for its advances, but as consideration for having made advances.—A. I do not remember anything about the surrender of the stock.

Q. Do you think you would have remembered if such a discussion had taken place?—A. I think I ought to.

Q. You think you would?—A. I think I would......'

Q. (Reading from recorded minutes of November 28) The solicitor of the company, pursuant to the instructions of the board at its meeting of November 7, read the agreement and mortgage between the Union Trust Company and the Great West Land Company. After some discussion it was moved by the Hon. G. W. Ross, seconded by Colonel Davidson, that the form of agreement (reads resolution) And that the proper amount be filled in by the general manager. Do you remember that agreement being placed before the board and discussed?—A. I do not remember it.

Q. Do you remember moving such a resolution ?—A. I do not.

Q. Do you think that you would have forgotten if so important a matter as that was discussed at a meeting so recent as November 28 ?—A. Is that the agreement in which the surrender of stock was provided for ?

Q. Yes.—A. Yes, I think I would remember it.'

Mr. Foster's account is given at pp. 2578-2584. It is very difficult to paraphrase or condense his account of the transaction. He thinks the abandonment of the bonus stock on the part of the Union Trust Company was improvident and apparently thinks that he opposed it and that it was only abandoned in deference to Mr. Stevenson's persistence, although he says at page 2580:—

'Q. Did he mention specifically any stock at all ?—A. He mentioned stock specifically.

Q. Did he distinguish in what he said between the two kinds of stock ?—A. I don't know whether he distinguished between the two kinds of stock or whether he simply referred to stock generally. I would not say that he did refer to it in any other way than to say it was stock.'

Mr. Wilson's account will be found between pp. 2719 and 2728. He also thinks that Mr. Stevenson was insisting upon giving up the bonus stock, including the 100 shares held by Dr. Oronhyatekha. He also thinks that he himself was opposed on behalf of the Union Trust Company to the bonus stock being given up. He says, however, that in the course of his discussion of the matter he took the position that it was inadvisable, in the interests of the Union Trust Company, to make the proposed change. Page 2721:—

'Q. You were advocating the policy of not converting your advances into a mortgage ?—A. Yes, in that case.

Q. That is what you were saying to Colonel Davidson ?—A. Yes.

Q. Did you say to Colonel Davidson, 'Of course if we do that we are going to take away that compensation stock' ?—A. I do not recollect saying that to Colonel Davidson.

Q. And if you did not say it to him, you heard nobody else say it, and you heard no discussion about it, either then or at any time ?—A. Oh, well, I won't say that......

Q. You have no recollection of yourself or anybody else saying more about the desirability of maintaining the *status quo* than you told me you said ?—A. At those meetings I had not.'

It also appears that Mr. Wilson had been advising Mr. Scholfield, of the Great West Land Company, that there was no right in the Union Trust Company, after having once elected to take stock for advances, to re-elect to take a mortgage and insist upon retaining the bonus stock.

The 337½ shares were divided with practical equality between Messrs. Foster, McGillivray and Wilson.

None of the three gentlemen concerned seem to have seen any impropriety in taking part in the discussion at the Board of the Union Trust Company of a question in which their interests were so vitally opposed to those of the Trust Company.

It is impossible to lose sight of the further circumstances that in the inception of the transaction, whatever the intention of the gentlemen may have been, their co-directors Mr. Stevenson, Sir John Boyd and Colonel Davidson, were left under the impression that they were putting up their own funds and were not made aware of the fact, as to which the minutes are entirely silent from beginning to end, that they were making a personal profit. Mr. Stevenson, page 2379, Sir John Boyd, pp. 2435 and 2436, Colonel Davidson, page 2600. The lack of proper vigilance on the part of other members of the board, though explainable by their confidence in their co-directors, ought not to escape observation.

In 1903, Mr. George W. Fowler, on behalf of himself, Mr. William Irwin and Mr. George McCormick brought to the notice of the Union Trust Company a proposition for the joint acquisition of certain timber limits and mill property in British Columbia. The proposal took the shape that the property should be jointly purchased and turned over to a company to be formed, of whose stock the Trust Company should have 51 per cent and Messrs. Fowler, Irwin and McCormick 49 per cent, the parties contributing in those proportions to the ultimate financing of the transaction, but the Trust Company meantime advancing all the money required.

Irwin and McCormick, who were supposed to have the necessary practical knowledge and experience, were to examine and report upon the property, while Fowler was to undertake the business of negotiating for its purchase. Fowler in his testimony asserts very strongly that he was the out-and-out owner of an option upon the property before he approached the Trust Company, and that he approached the company as proposing vendor, and at arm's length, pp. 2779-2788, and pp. 3090-3093. On the other hand Mr. Foster (page 2535) and Mr. Stevenson (page 2403) speak of Mr. Fowler as having entered upon the negotiations for the purchase of the property in question for all those who were expected to be interested.

The facts that seem to be clearly established upon the documentary and other uncontradicted evidence may be stated as follows:—

(1) Prior to 24th October, 1903, Mr. McCormick had refused to deal as purchaser for a property which included all the timber limits and other property included in this transaction, and also three smaller limits, alleging that, for the whole, $250,000 was an excessive price.

(2) Fowler was introduced as a prospective purchaser by Mr. McCormick.

(3) On 24th October, 1903, Mr. Peter Ryan, who was negotiating the sale, gave Fowler an option at $200,000 on the whole property, except 28 acres of berth No. 233, including the three smaller limits, (Exhibit 509). The omission of the 28 acres was probably a clerical error.

(4) On the same day Ryan gave Fowler an option at $250,000 on the whole property, including the 28 acres of berth No. 233 and the three smaller limits. (Exhibit 502).

(5) An option, bearing date the same day, from Fowler to one James Harper, of Boston, at $250,000 is produced, covering the same property and with the same omission as that set out in paragraph 3. (Exhibit 511).

(6) Before the 19th December, 1903, a proposal seems to have been made by Fowler to Mr. Foster, the managing director of the Union Trust Company, the

nature of which is indicated by the minute of the board of that date, as follows: (Exhibit 493).

> 'A proposition was laid before the directors by the manager in reference to providing money for the purchase and working of certain timber berths in British Columbia as described in a memorandum of agreement entered into between Peter Ryan of Toronto and George W. Fowler of Sussex, N.B., giving an option to the latter by the former, and the manager was instructed to continue the negotiations and secure the reports of the examiners now upon the property, on the understanding that if the reports are satisfactory the Trust Company will advance the money required to purchase the property and take a controlling interest therein.'

(7) The option referred to in the minute is the option mentioned in (4) and the 'examiners' then upon the property were McCormick and Irwin, who were sent out and their expenses paid by the Trust Company (page 3099).

(8) On 5th January, 1904, the examiners reported favourably to Mr. Foster (Exhibit 677). This report covered the 28 acres, and also referred to the three smaller limits.

(9) On 26th January, 1904, Mr. Fowler again saw Mr. Ryan, and negotiations were resumed, the object being to close with Ryan upon a basis which would be satisfactory to the Union Trust Company, which was then expected to finance the transaction. The negotiations shifted from the terms of the option spoken of in (4), and the three smaller limits were eventually eliminated, the ostensible price of $250,000 fixed by the option mentioned in (4) being accordingly reduced to an ostensible price of $225,000, while the real price of $200,000 fixed by the option mentioned in (3) was reduced to the real price of $170,000.

(10) Two agreements were then prepared and executed, both dated 26th January, 1904, one of which was to be operative between Ryan and Fowler, selling him the property, less the three smaller limits, but embracing the 28 acres, for $170,000 (Exhibit 510), while the other, which was intended to be put forward to the Union Trust Company as the real bargain, professed to sell him the same property for $225,000 (Exhibit 945).

(11) Mr. Fowler does not pretend that he ever disclosed to the Trust Company either the real option on the larger property at $200,000, nor the real bargain on the smaller property at $170,000. In the early negotiations the fictitious option at $250,000 was alone put forward, and in the later negotiations the fictitious agreement of sale at $225,000 was alone put forward.

(12) In elaborate reports (Exhibit 678), made to Mr. Fowler by McCormick and Irwin, parts of which purport to bear date February 1, 1904, and other parts February 4, 1904, the timber limits and the mill and other property were fully discussed. They do not appear to have made any further report to the Union Trust Company or to Mr. Foster. It is, perhaps, significant, that while the report of January 5, 1904, to Mr. Foster merely refers to their having sent men to examine the Albert canyon limits, being the three limits which were cut out of the completed transaction between Ryan and Fowler bearing date January 26, the report of February 1, to Mr. Fowler condemns these limits, advises their being discarded, and suggests that the price should therefore be discounted by $20,000. It is difficult to resist the conclusion that Mr. Fowler was in possession of this information when he closed with Ryan.

(13) On February 8, 1904, the dealing with the Union Trust Company was reduced into conveyancing. The main agreement of that date, by which Fowler conveys the property to Foster in trust, and which declares the trust to be, to the extent of forty-nine per cent for Fowler, Irwin and McCormick, and to the extent of 51 per cent for the Trust Company, recites most carefully that Fowler, Irwin and McCormick contemplate purchasing and desire to negotiate for the property, and have applied to the Trust Company to join them in the purchase; that in pursuance thereof

the agreement of January 26, with Ryan was entered into by Fowler; and that it is now necessary to procure and pay to Ryan his purchase money accordingly.

(14) Following this, $225,000 was paid to Ryan by the Trust Company. By the real arrangement between him and Fowler he was only entitled to retain $170,000, and he paid over the remaining $55,000, or the greater part of it, to Fowler.

(15) Out of these moneys Fowler paid Foster at least $2,500, and probably about $7,000. He paid McCormick $1,000, and Irwin, $12,000. Mr. Foster's evidence, pp. 2536-2537; Mr. Fowler's evidence, pp. 3102, 3103, 3104; Schurman's evidence, pp. 2526-2527; (Exhibit 545).

Mr. Fowler became entitled to 650 shares in the capital stock of the Kamloops Lumber Company, which was formed to take over the properties purchased from Ryan. Mr. Foster had some verbal arrangement with him, by which he (Foster) was to be beneficially entitled to 300 of these shares, indemnifying Fowler against his obligation to pay for them to the Union Trust Company, which had advanced all the moneys. This was reduced to writing in June, 1905 (Exhibit 547).

It seems unfortunate that this dealing by the managing director was not disclosed to his company till after this inquiry commenced, page 2597.

While the organization of the Kamloops Lumber Company was proceeding, another property in which Irwin, McCormick and Fowler were interested was offered to complete the equipment of the new company. This was the Okanagan Lumber Company's property at Enderby, B.C., consisting of mill, limits, plant, book accounts, &c.

This company had been incorporated in August, 1903, and had a capital stock of $50,000. There were originally five shareholders, of whom McCormick was one, each holding $10,000 of stock. Mr. Irwin subsequently bought from Mr. Bull, who was one of the original shareholders, half his holding, for $5,000.

The Okanagan Company had purchased for $40,000 the whole property and equipment which it was proposed to pass on to the Kamloops Lumber Company for $175,000, besides an additional price for the manufactured logs on hand, for which the Kamloops Lumber Company ultimately paid an additional $42,000.

At the end of 1903 the directors of the Okanagan Company had submitted to the shareholders a statement of assets and liabilities (Exhibit 540). The total assets were placed at $65,544.66, stock liability at $50,000, and other debts at $11,026.81, leaving profit and loss account at $2,517.85.

Mr. Fowler says that Irwin urged the purchase of this property upon the Union Trust Company, as part of the Kamloops undertaking, threatening to withdraw from the latter altogether and to purchase and operate the Enderby property himself. This is corroborated by Mr. Stevenson, who says that they rather felt they were coerced by Mr. Irwin's course against their own inclinations. Mr. Fowler says that the interest of McCormick and Irwin in the subject of the purchase was known. Mr. Foster says he knew nothing whatever about the organization of the Okanagan Company, its shares, or who held them. Mr. Fowler says that Irwin and McCormick had nothing to do with the examination of the property, and that an independent examiner, a Mr. Hamilton, was sent. Mr. Stevenson says they were relying upon Irwin's experience and responsibility. Mr. Foster says it was Irwin and Hamilton who were specially sent. Mr. Fowler says that he had nothing to do with the negotiations which resulted in the option given to him on May 23, 1904, but was sent to Enderby after the matter had been completely arranged, for the formal purpose of taking an option upon the arranged terms. Mr. Stevenson says Mr. Fowler represented, as he understood it, 'our company,' and his associates Irwin and McCormick in the negotiations for that property. Mr. Foster's recollection is not clear, but he thinks Mr. Fowler brought an option from the Okanagan Company which the Kamloops Company, after investigation, accepted. This is clear, that the option of May 23, 1904, was given to Fowler, and that on the same date he was given two powers of attorney by the Okanagan Company, authorizing him to receive all purchase moneys under—

'a certain sale of our property made or to be made by us to the Kamloops Lumber Company through the said George W. Fowler.'

It is also clear that the whole purchase money, $175,000 for the property and $42,000 for the logs, was duly paid to Mr. Fowler by the Kamloops Lumber Company or the Union Trust Company. It is also clear that Irwin, McCormick and Fowler represented to Mr. Bull, who had $5,000 of stock on which he had paid $1,000 in cash, the remaining $4,000 being represented by his promissory note, that the property had been sold at such a figure as would give each shareholder two for one, and they settled with him on that basis, paying him $6,000 and cancelling his note for $4,000. The balance of the $217,000 after paying the liabilities, was divided among Hale, McCormick, Irwin and Beattie, they being, so far as the Commission was able to ascertain, the then remaining shareholders of the Okanagan Company, and Mr. Fowler, but in what proportions the Commission has not discovered. Fowler claims to have advanced the company $22,000, and says that to some extent, probably $15,000, this advance was treated as entitling him to the position of shareholder in the division of profits. He does not pretend to have made any disclosures upon any of these matters to those of his associates in the enterprise who represented the Union Trust Company interests.

Another accretion to the equipment of the Kamloops Company was the Shuswap Shingle and Lumber Company. One Shields controlled the sale of this property. Messrs. Fowler, Irwin and McCormick negotiated with him, and in pursuance of their negotiations the Shuswap Company on 27th May, 1904, gave an option to Mr. Foster, as trustee, at $40,000. Mr. Fowler says that after he and his associates had examined the property and agreed to recommend its purchase, he was informed by Mr. Peter Ryan that he, Ryan, was entitled to a commission of $5,000 on the sale from Shields, and that he was offered by Ryan one-half of this commission. Ryan gave Fowler an order or orders accordingly on Shields. Fowler says that Ryan had not then paid him the whole of the $55,000 which he was to receive out of the original Kamloops purchase money, and that the order or orders given by him included a sum of money in addition to the half commission, which additional sum was to be applied on the balance due by Ryan. He says the whole amount received by him from Shields on the order or orders was, he thinks, $4,000, and that he is quite willing to credit Ryan on his debt with the whole sum. He did not disclose to those of his associates who represented the Union Trust Company any of these circumstances. His account is given at pp. 3079-3083 of the evidence.

The interests of the Kamloops Company passed through various phases. Irwin did not remain interested, but dropped out when the initial arrangements were about being reduced to writing. Another subsidiary company was formed and took its place in the Kamloops group. At another stage Fowler and McCormick surrendered their stockholding altogether, and finally the Trust Company sold out their whole investment, fortunately at a profit. This was brought about by the efforts of Mr. Stevenson, who, in 1905, took the position that the operation and conduct of business enterprises of the kind were foreign to a proper investment of trust funds. His report upon these properties to the Union Trust board of November 10, 1905 (Exhibit 508), is an able review of the situation at that date and the policy outlined in it has been followed out not only with wisdom, but with extreme good fortune.

On April 9, 1906, the executive of the Foresters passed a resolution to part with the whole of or a controlling interest in the stock of the Union Trust Company. Mr. Stevenson speaks of three factors which entered into that policy:—(1) The responsibility and risk involved in the Trust Company's investments, which belonged substantially to the Foresters, had become too great. (2) There were rumours afloat of profits 'upon the side.' (3) The property of subsidiary companies had become an acute question, and the New Hampshire superintendent of insurance was making a point of this feature in considering whether to grant the Foresters authority to do business in that state.

In furtherance of this policy Mr. Matthew Wilson, K.C., the general solicitor and a director of the Union Trust Company, was employed by the I.O.F. to effect a sale of such controlling interest. In the course of his negotiations he came into relations with Mr. E. E. A. DuVernet, who thinks that at this time Mr. Wilson produced an option to himself to purchase $1,500,000 of stock at 110. Mr. Stevenson says the name in the option was not filled in until after the arrangement with Mr. DuVernet was in progress, and that Mr. Wilson first suggested filling in the name of Mr. DuVernet himself. Mr. DuVernet says he agreed to take up the option at 110, in addition paying Mr. Wilson, whom he says he believed to be the independent owner of the option, $5,000 in cash and 200 shares of the stock.

Mr. DuVernet says he arranged with Messrs. Edward Gurney and Charles Magee, the former being president and the latter vice-president of the Crown Bank, that they should take over one-third of the option, or $500,000 stock, arranging for the financing of that portion. He says that Mr. Wilson desired to make a stipulation with him for an option back at 110 on one-half of $500,000 of the stock, or $250,000. This Mr. DuVernet says he at first declined, but finally, upon pressure, agreed to do, upon the terms of Mr. Wilson 'bringing back' half of the $5,000 cash commission and half of the $20,000 stock commission. Mr. Wilson was to deposit the $2,500 with him to be forfeited if he failed to take up the option. He says that on this occasion he drew his own cheque for the $5,000 commission, payable to Mr. Wilson's order, and that when the $2,500 forfeit was agreed to Mr. Wilson endorsed the $5,000 cheque over to him and received the cheque of Mr. DuVernet's firm for $2,500. He says he thinks the option to Wilson was in writing, and that Mr. Wilson subsequently forfeited by letter his right to take up the $250,000 option. Neither the option to Mr. Wilson nor his letter forfeiting same has been produced.

Mr. Wilson's account of the matter is that his 'interest' is one-half of $500,000 of the stock, that he is 'with Mr. DuVernet' in the purchase to that extent. He says he told Mr. Stevenson that he had been 'invited' to become one of the purchasers. He also states that Mr. DuVernet wished him to become manager at $10,000 per year, or president or vice-president at $5,000 per year, which he would implement to the extent of $2,500 out of his own pocket. He says a cheque payable to his order for $5,000 was put before him by Mr. DuVernet and he was asked to endorse it and did so, but he does not know whose cheque it was or what was its purpose, save that it was part of the transaction by means of which Mr. DuVernet was interesting Mr. Gurney and Mr. Magee; that he made no inquiry whatever, and does not know why the cheque was payable to him. He is not sure, but he thinks the $2,500, which he admits he received from Mr. DuVernet, was paid to him on a subsequent occasion. He did not report the arrangement for the $2,500 to Mr. Stevenson.

With regard to the compensation to be paid him in stock, he says the arrangement with Mr. DuVernet was that if his (Wilson's $250,000 of stock were sold, he would accept $25,000 as his profit upon it. He thinks it was not $20,000, but $25,000. He says there never was any agreement in writing, and he never wrote any letter.

He says he would not sell for less than the $25,000 profit, but would rather not sell at all.

Mr. DuVernet absolutely denies that there ever was any intention to make any profit whatever out of the stock.

These are, in brief, the accounts given by the immediate parties to this transaction. They are, under the circumstances, and having regard to the recent date of the transaction, remarkably contradictory. If it could be supposed that Mr. Wilson, agent for the vendor, stipulated for a secret commission in cash and stock from a vendee who was acting for himself and others, and that the latter made a cross stipulation that the commission in cash and in stock should be secretly halved with him, all the admitted facts would harmonize themselves with a theory which would be at least intelligible.

The written agreement which emerged from these negotiations is dated 3rd May, 1906. By it the Foresters sell to Mr. DuVernet 15,000 shares of Union Trust stock

for $1,650,000. The Trust Company assents. Mr. DuVernet pays $500,000 cash. The balance of the purchase money is payable in five years with interest yearly at 5 per cent. 250 shares are immediately delivered, the remaining 14,750 shares remain with the Foresters as security, but may be released by payments in multiples of 110. Meantime Mr. DuVernet receives all dividends, but the Foresters retain the voting power. The relations theretofore existing between the Foresters and the Trust Company with regard to investments by the latter of the former's funds are revised and continued for ten years, subject to six months' notice.

If the purpose of the resolution of 9th April, 1906, was to part with control of the Trust Company, this agreement does not adapt itself with expedition to the purpose.

THE CATHOLIC MUTUAL BENEFIT ASSOCIATION OF CANADA.

This society was first incorporated on 18th January, 1890, under the General Ontario Act. It was then under the jurisdiction of a parent society in the United States, but in 1892 it declared its independence, and became a distinct Canadian society. In 1893 it obtained an Act of incorporation from Parliament (56 Vic., cap. 90). That Act declared its object to be fraternal union, the improvement of the social, moral and intellectual condition of its members, and their education in integrity, sobriety and frugality, and the establishment, management and disbursement of a mutual benefit and a reserve fund, from which a sum not exceeding $2,000 might be paid to the widows, orphans, dependents or other beneficiaries designated by, or the legal representatives of deceased members. By the statute the head office was fixed at London, but in January, 1903, it was removed to Kingston. By the Act the usual powers in respect of organization and government were conferred, the society's powers of investment were defined and annuities and endowments were prohibited.

The by-laws which constitute the law of the society, so far as material for the present purpose, fix certain rates of assessment and create with the proceeds thereof a beneficiary fund. They provide that each member is to pay in each year after 1st January, 1905, an amount equal to twenty full assessments, divided into twelve monthly payments and that members must pay any further assessments not exceeding four in any one year, that it may be necessary to levy. The beneficiary fund resulting from these assessments is the primary source for the payment of death claims.

Provision is also made by the by-laws for the creation of a reserve fund. A gross 5 per cent of every assessment levied is to be transferred for that purpose from the beneficiary fund account to the reserve fund account. The group of by-laws dealing with this fund is ill-drawn and the meaning in some respects quite obscure. When the reserve fund exceeds the amount of the whole assessment, the excess may be invested. The amount of one whole assessment appears to be intended to be kept at hand in cash to supplement the beneficiary fund, if that fund should be found insufficient to pay death claims. To that purpose it is permitted to be applied, but it is required to be replaced 'as soon as the assessment or assessments issued for payment of such claim have been received.'

Save for the purpoes of this emergency, the reserve fund is required to remain intact, and to go on accumulating, but not more than twenty-four assessments in any one year are to be levied. If twenty-four assessments have been made, the reserve fund may be resorted to for making good any deficiency in the beneficiary fund, in lieu of such further assesment; provided that the total minimum amount of the reserve fund shall be $10,000, the excess over that sum being alone available for the purposes stated. It is also provided that when the fund reaches $250,000, although the assessments in any one year have not exceeded said number (24?), then so much of the reserve fund as exceeds $250,000 and the interest upon the whole fund, or so much as may be necessary, must be applied to the payment of beneficiaries, in lieu of

an assessment upon the surviving members. It seems probable that this last provision was intended to make any surplus reserve above $250,000 available in case of the assessments, and that the word 'exceeded' was intended to be 'reached.' If not, it is extremely difficult to understand the provision.

The by-laws require an initiation fee of fifty cents to be collected by the Branch Council and remitted to the Grand Council, as well as a per capita tax on each member of $1.20 to be remitted quarterly. The fund arising from these resources is available for expenses.

What is spoken of as a sick fund was very recently established, but it may be disregarded for the purposes of this report being, as was said, still in its infancy.

From the time of its incorporation the assessments for which the by-laws of the society provide and which have been constant in amount, have necessarily been more frequent than monthly. Until the change in 1904, about to be noticed, there was no spreading the extra levy over the year in monthly instalments. Sometimes as many as fifteen, sometimes as many as eighteen or nineteen single assessments were levied during the year. This was productive of much inconvenience to the members. Many and serious were the discussions of the vital question whether adequate rates were being exacted. The Grand Council saw other fraternal bodies 'having trouble' with their rates. Some were raising them. Others were decaying. 'Committee after committee' was appointed to consider the situation. They could not agree. The fundamental paradox which characterizes the question was too much for them. They were apparently prosperous, always had money to pay the claims made upon them, but the more thoughtful among them saw dimly that a time might come when, with an aging membership and a growing death rate even twenty-four assessments instead of twelve would quite fail to make good their insurance liabilities.

At length an actuary was invited to give his advice. The gentleman selected was Mr. Abbé Landis. He made a careful examination and valuation of the society's policies. His report, which was published in the official organ of the society, points out the abnormally low lapse rate prevailing in the society and the consequent persistence of its insurance contracts, thus anticipating the argument sometimes deduced from the alleged large profits on lapses in fraternal societies. He demonstrates with much clearness that the younger members, at prevailing rates, are contributing to the cost of carrying the older members' insurance, instead of accumulating a fund by means of which their own may be carried as their ages advance and the cost increases. He shows the fallacy as well as the inequity which characterizes any method of insurance by which each policy is not made to provide for its own cost. He proves that, as time goes on, the proportion of new members to old must enormously and impossibly increase in order that the assessments of the former may continue to defray the expense of carrying the insurance of the latter.

He computes a reserve of $6,217,248 on the basis of twelve assessments per annum, a reserve of $4,711,010 on the basis of eighteen assessments, a reserve of $3,204,773 on the basis of twenty-four assessments, and shows that by making thirty-six assessments annually, as a level contribution for all future time, the reserve required would be reduced to $192,208 against which stood the accumulated funds of the society, then $157,563, leaving a deficiency of $34,375 to be provided for.

But he recognizes the impossibility of levying thirty-six assessments per annum if the society's existence is to continue, and he submits two alternative tables of level monthly rates, one for whole life insurance and the other for term insurance to age 65, giving readings of both tables at alternative rates of 3½ and 4 per cent, and using the National Fraternal Congress table, which he finds to accord very closely with the actual mortality experience of the society.

This report was presented to the Grand Council at the 1904 convention. The council referred it to a special committee, which reported that the existing rates were not sufficient to secure the stability of the society, and that the committee had not enough information to make a formal recommendation for readjustment of rates,

and advised the convention to empower the executive to make the re-adjustment. This report was presented to the convention, which then proceeded to pass the 20-assessment by-law now in force.

It may well be supposed that a majority of the older members of the society would oppose the adoption of the plan proposed by Mr. Landis. The keystone of his proposition was that they should bear the cost of carrying their own insurance, instead of resorting to the surplus funds which younger members were providing to carry their own when its cost should exceed the level contribution.

The following table compares the society's present rates with the Hunter and National Fraternal Congress rates:—

Age.	Rate per $1,000.	Hunter.	N. F. C.
18		9.86	
19		10.20	
20		10.55	
21	10.20	10.91	10.62
22		11.28	10.92
23		11.66	11.24
24		12.03	11.57
25		12.42	11.92
26		12.76	12.28
27		13.22	12.67
28	11.40	13.49	13.08
29		13.87	13.51
30		14.31	13.96
31		14.76	14.43
32		15.22	14.94
33	12.00	15.73	15.47
34		16.25	16.03
35		16.82	16.62
36		17.42	17.24
37		18.05	17.90
38	13.20	18.71	18.60
39		19.42	19.34
40		20.18	20.11
41		20.97	20.93
42		21.81	21.80
43	15.00	22.70	22.72
44		23.65	23.69
45		24.66	24.72
46		25.72	25.81
47		27.31	26.91
48	17.40	28.10	28.20
49		29.36	29.51
50		.....	.....

The reserve fund, consisting of 5 per cent taken from all assessments, is intact, and now amounts to about $208,000.

The beneficiary fund, however, has been freely treated as a fund from which borrowings for expenses might be made. At the time of the inquiry the general or expense fund was thus indebted to the beneficiary fund to the extent of about $11,000, which was expended in holding the convention in 1904.

The premium income of the society for 1905 was $336,601.05. Its membership at the end of that year was 19,750, and the insurance in force, $26,393,500.

The society has never made any investments, all the funds in hand being deposited at interest in different banks.

THE CANADIAN ORDER OF THE WOODMEN OF THE WORLD.

This society was incorporated in 1893 by Act of Parliament, 56 Vic., cap. 92, its objects being:—

(*a*) To unite its members in social and fraternal bonds;
(*b*) To collect and distribute charitable donations;
(*c*) To make with its own members contracts for insurance in sums not exceeding $3,000, payable on the death of the insured;
(*d*) To erect a monument over the grave of each deceased member.

Its head office was fixed at London, and provision was made for its government by a representative body to be known as the Head Camp, to be elected annually or biennially as might be determined by by-law.

The Act directed the accumulation of an emergency fund not less than the proceeds of one mortuary assessment upon all the membership, and authorized the raising of a reserve fund or guarantee, by subscription, to an amount not exceeding $100,000.

By-laws were passed, the earlier forms of which may be disregarded for the present purpose. In their present form they provide for the organization and government of subordinate camps, the delegation of representatives thereof to the head camp, bestow names upon the officers, arrange for their election, prescribe their duties and create them an executive council, having (except while the head camp is in session) all the absolute, original and appellate and final jurisdiction of the head camp.

The by-laws further establish certain funds and accounts, impose fees, taxes and assessments and fix monthly premium rates.

In 1902 the society agitated for the establishment of sick and funeral benefits. Application was made to the Ontario Inspector of Insurance for permission to form a department of the society for that purpose, but the request was denied. An amendment by Parliament to the original Act of incorporation was talked of, but was discouraged by the Superintendent, who stated that if asked to report upon such an application he would report adversely. It seems probable that his reason was the disinclination of the society to come under any compulsory requirement as to maintaining reserves. Parliament had originally authorized, but had not required a reserve in respect of the mortuary business of the society, and the establishment of another branch of business without providing for adequate reserves did not recommend itself to the Superintendent.

In 1903 Parliament was applied to, and the Act of incorporatien was amended by adding to the four original objects of the society a fifth, viz.: To establish, maintain and administer a fund for the payment of sick and funeral benefits. Parliament, however, required that the sick and funeral fund should never be less than the legal reserve, calculated as to funeral benefits on the basis prescribed in the Insurance Act, and based as to sick benefits upon such Standard Sickness Tables as the society used in the construction of its rates, and a rate of 3½ per cent.

The sick and funeral premiums were required to be payable monthly, sick benefit was limited to $260, funeral benefit to $100, the new branch was to be kept separate in every respect from the rest of the society's business and the use of any other funds of the society for sick and funeral purposes was absolutely forbidden.

The present deposit of moneys with the Treasury Board was excused, but the right was reserved to demand a deposit of $10,000 so soon as the required amount should be available.

The funds established by the by-laws are:—

(1) The emergency fund;
(2) The insurance fund;
(3) The monument account or fund;
(4) The expense fund;
(5) The investigation fund;
(6) The sick and funeral fund.

The reserve or guarantee fund authorized by the Act of incorporation was never established, except in so far as the insurance fund serves the same purpose.

The emergency fund was provided for by requiring every applicant on joining to pay one assessment at the premium rates paid. This fund was not to be resorted to except for payment of mortuary claims, and then only when the insurance fund should be exhausted.

All subsequent assessments were to go into the insurance fund. This was not to be depleted except for death claims, payments to the monument account and the restoration of borrowings from the emergency fund.

The monument fund consisted of sums transferred from the insurance fund. At the death of each member $100 was so transferred, the policy providing not only for the payment of the amount insured but also for the placing over the grave of the deceased member of a monument 'of the value of not less than $100.' The by-laws say 'at a cost not exceeding $100.' The monument fund was applied in or towards the erection of monuments, but sometimes monuments were not desired by the beneficiaries, or they were content with the expenditure of less than $100. In these cases the by-laws directed the transfer of the saving to the expense fund for the extension of the Order. In this way the sum of $6,076.25 found its way from the insurance or mortuary fund into the expense fund.

The principal normal sources of the expense fund were certain per capita taxes, certificate fees and profits on sales of supplies to subordinate camps. What may be called its abnormal sources are the monument account, already mentioned, and the sick and funeral fund, from which $2,114.19 was transferred, $1,114.19 being said to represent the cost of the legislation obtained in 1903, and $1,000 being estimated for cost of management for two years.

The investigation fund was created by setting apart 1 per cent of all the assessments received. Its declared purpose was to protect the insurance fund against improper claims, by the defence of suits and investigating the conduct of members and others. There has been taken from the insurance fund and put into this fund, under this authority, $3,466.10, besides $56.84 transferred from the emergency fund, apparently without any authority whatever.

The sick and funeral benefit fund is or should be the reserves in respect of those benefits, computed upon the basis prescribed in the Act of 1903.

This branch of the business was by the act required to be kept separate from the society's other business; and it was, no doubt, intended that the maintenance of such reserves should sufficiently secure the solvency of the branch in respect of its sick and funeral obligations. No attempt was made by the society, however, to comply with the Statute. It seems clear that no standard sickness table was used for the purpose of computing the sick and funeral rates, and, indeed, that no computation of any kind was made, either in respect of the rates fixed or in respect of the reserves to be maintained. The fund, which stands at something less than $1,200, is grossly inadequate to answer the purposes required by the Act.

It was quite impossible to obtain any clear knowledge of the actual position of the company, the state of any of its funds, its income, expenditure, assets or liabilities. The society kept no ledger, and its cash book entries have never been posted or classified or assembled in any way. The accountant employed by the commission reported his inability to apply any check to the bookkeeping of the society.

Its yearly returns appear to have been based largely upon estimates and not upon actual analysis and summation. All its funds have been mingled in a single bank account, from which all payments were made.

Under these circumstances, it is not remarkable that much more has been paid out for expenses than the funds available. The insurance funds have been continuously subject to depletion, the covering device being to borrow money from the bank upon promissory notes approximately representing the overdraft from time to time, and crediting the proceeds of their discount to the mingled account. On December

31, 1905, this borrowing amounted to $9,542.60 besides which the society owed in office rent and salaries, $1,503.98. The bank charged 5 per cent upon the moneys loaned, and paid 3 per cent upon the deposit.

The society returned ledger assets at $169,928.62 on December 31, 1905. The accuracy of this it has been impossible to verify.

There were returned as in force at the same date 10,438 policies, insuring $11,-499,000, besides $100 per member, or $1,043,800 for monuments. The number of sick and funeral beneficiaries was 611, and the total assets of that branch were returned at $1,087.89, omitting a small amount returned as uncollected premiums.

There have been periodical audits of the society's accounts, but as the material for a proper audit has never existed, these audits must have been the merest pretence.

This society has had members paying upon four schedules of rates. When incorporation took place in 1893 a schedule was fixed which is shown in outline in the third column of the following table. The society, however, then admitted in a body those members of the old unincorporated society who chose to join them. There were, perhaps, four or five hundred of these, and they were permitted to continue paying the rates fixed by the unincorporated society, which are shown in the second column of the table. In 1896 the rates were raised to the extent shown in the fourth column, but the increase did not apply to either class of old members. In 1900 they were again raised to the amount given in the fifth column, but all classes of old members were left unaffected. In 1904, when the Knights of the Maccabees, another friendly society, raised the rates of that society to a higher figure than the rates then in force among the Woodmen, about four hundred of the Knights were admitted at the 1900 rates, but as of their respective ages when they joined the Maccabees, paying $11 per $1,000 of insurance for the privilege. In 1901 a committee was appointed to consider proposals to charge current rates to old members, to increase the current rates and to admit women. The committee reported favourably upon all proposals, recommending the adoption of the Hunter rates, referring, no doubt, to the table of rates contained in the schedule to the Ontario Insurance Act. The only portion of the committee's report that was adopted was that relating to the admission of women.

January 30, 1906, the Sessional Committee of the society reported:

> 'that judged by any standard system of comparison, our present rate is not nearly adequate for the purpose of our Order, and that the longer we continue to accept business under these rates, the greater will be our eventual loss.'

The report was very careful and elaborate. It pointed out, among other things, that at the existing rates, an applicant entering at 30 would at 60 have used up the whole amount paid by him above actual mortality cost, though kept invested continuously at 4 per cent, and that an applicant entering at 38 would be in a similiar position at 58. The committee recommended the rates outlined in the sixth column of the table. The head camp rejected the recommendation, although it does not appear to have been intended to apply to the old members. The other columns in the table enable a comparison to be made of all these schedules with the rates fixed by the Hunter, National Fraternal Congress and Tables respectively:

Age.	1891.	1893.	1896.	1900.	1906.	Hunter's.	N.F.C.	O (m)
20	4.80	4.20	6.00	7.44	10.80			
25	4.80	4.80	7.20	8.16	12.48	13.66	13.11	15.21
30	5.40	5.40	7.80	8.88	14.64			
35	5.40	6.00	8.40	9.72	17.40	18.50	18.28	20.76
40	6.00	7.20	9.00	11.52	21.12			
45	6.60	9.00	10.20	15.12	25.92	27.13	27.19	29.85
50	9.00	13.80	14.40	27.04	32.52			
55	18.00	30.00	30.00	33.00	41.28	42.83	43.30	45.87

The exemption of old members from the payment of the present rates seems to be a direct contravention of the terms of by-law 112 (a) fixing these rates, which makes them apply in express terms to every member. It was said that the 'understanding' was that old members should not be affected, but no such understanding ought to prevail against the clear language used.

It must not be forgotten that the various rates fixed from time to time by the society, while nominally fixed with relation to the amount of the policy or certificate, should, in reality, be sufficient to provide for an additional $100 upon each policy, by reason of the monument provision.

The Commission called upon Mr. Grant, of the Insurance Branch, for a valuation of the insurance obligations of the society upon the basis of the National Fraternal Congress Mortality Table, at a 4 per cent rate. The result of that valuation is to fix the present value of the society's obligations, not including the sickness and funeral benefits, at $1,017,100.

Mr. Blackadar made an entirely independent valuation, using, however, the H (m) table and a 4 per cent rate. This valuation is $1,026,186.

The ledger assets of the society, claimed by the return of December 31, 1905:

Return of December 31, 1905 amounted to	$169,928 62
The other assets given were	14,892 28
Total	$184,820 90
The liabilities, according to the return were	$ 27,546 58
Available assets	$157,274.32

Your Commissioners intend to discuss the position of this and other fraternal societies from this point of view more fully under an appropriate heading in a subsequent part of this report.

THE SUBSIDIARY HIGH COURT OF THE ANCIENT ORDER OF FORESTERS IN THE DOMINION OF CANADA.

This society, prior to 1881, was a dependency of an English society. In that year it became independent, and commenced the business of insuring its members, under the name of 'endowment'.

The first incorporation was under the General Ontario Act, R. S. O., 1877, cap. 167. Subsequently, under circumstances and for reasons which will be explained, it obtained from the Dominion in 1898 an incorporating Act, 61 Vic., cap. 91. That Act declared the objects of the society in terms which, for the purposes of this report, do not differ materially from the terms in which the objects of the other friendly societies, already reported upon are declared. The provision which distinguishes the incorporation by Parliament of this society from that of any other society with which this report has had to deal is the requirement imposed by Section 10 of the Act that, in respect of all policies issued after its passing, a fund equal to a reserve computed acording to the standard provided in the Insurance Act shall be maintained. This circumstance marks, in the opinion of your Commissioners, a definite advance by Parliament towards the placing of friendly societies upon the sound basis of maintaining such a reserve as will amply secure their members in respect of their insurance contracts.

The same section, in effect, left prior insurance of the society's members to stand upon its own footing without the inequitable aid afforded by the contributions of new members, by requiring the business in respect of new insurance to be kept entirely distinct and separate from the old, and by prescribing an absolute separation be-

tween the funds accruing under the old insurance and those accruing and passing into reserve under the new.

In other respects the Act is not substantially dissimilar from the other Acts incorporating friendly societies which have been noticed.

The history of this important change in the character of friendly society legislation is not without interest. This society had extended its business into the province of Quebec and had considerable membership there, when, in January, 1898, the legislature of that province passed an Act requiring mutual benefit societies and benevolent associations incorporated in other provinces to make a deposit of $5,000 with the Provincial Treasurer, and to select a head office and appoint a general agent in the province of Quebec.

The next regular sitting of the High Court of the society was not to take place till 1899, and the executive, unwilling to accede to the new Quebec law, decided to apply to Parliament for an Act of incorporation, after obtaining which a Dominion license could be procured, entitling the society to do business in all the provinces of the Dominion, without reference to any provincial license requirements.

The time for introducing private Bills in the House of Commons had expired, but, by well directed and persistent effort, this obstacle was surmounted. The Bill, as introduced, contained so much provision as section 10 of the Act. Its passage was opposed by the Superintendent, and was only secured after its promoters had assented to be put under compulsion to maintain the legal reserve in respect of all new business.

The executive was subjected to some criticism at the meeting of the High Court in 1899, but their action was, in the end, approved by that meeting, and by an ingenious arrangement and offer of options to the old members, from whom the opposition came, calculated to induce them to bring their insurance within the new provisions, the difficulties were substantially composed, very few, it is said, retiring, and nearly all availing themselves of one or other of the options, so that at the date of the inquiry all the insurance on foot was insurance in respect of which the legal reserve was being maintained.

The options were as follows:—

(1) Reduction of the new rates by the member's shares in the then existing fund;

(2) Reduction of policy by lien to the extent of the difference between the policy's share of the then existing fund and what its share would be of a full legal reserve, the member paying by way of premium the new rates at age of entry and interest on account of the lien at 5 per cent;

(3) Continued payment of old rate, but certificate to be issued for such amount only as old rate and policy share of the then existing fund would purchase at new rates;

(4) Payment discontinued altogether, member receiving paid up certificate for his policy's share of the then existing fund.

The officers of the society who were examined were explicit with regard to the general satisfaction of the membership under the new conditions and the improved standing and prospects of the society.

Before the change the membership was falling off; few new members were joining, and the aging of the old membership was seriously increasing the death rate.

Since the change there has been a steady and healthy growth in the new membership, the old members have the satisfaction of knowing that they are themselves paying for the carrying of their own insurance, and the new members are relieved of the alarming drain upon their surplus contributions, intended to carry their own insurance in its later and more expensive years, but theretofore diverted to the making good of the excessive cost of keeping the insurance of the old members on foot.

It seems to be beyond the powers of this society to stipulate, as it does by endorsement on the policies in one class, that the member may be paid a portion of the insurance in cash, taking paid up insurance for the balance. The incorporating Act permits only contract to pay on proof of the member's death.

On 31st December, 1905, the society had 1,163 policies in force, assuring $1,048,882.

GENERAL OBSERVATIONS AND RECOMMENDATIONS.

In the foregoing synopsis of the results of the inquiry into the organization and management of the Canadian companies holding Dominion licenses, your Commissioners have endeavoured merely to collect and arrange the facts as disclosed in the evidence adduced before the Commission from which proper general conclusions may be drawn. They have not attempted to draw such general conclusions, nor have they attempted to deal with questions of pure insurance, believing that such conclusions may more fitly be drawn and such questions more advantageously discussed in this part of the report, where, in a general review of the whole field, an effort will be made to present in some systematic shape those features of the present situation which call for comment and remedy. The demand for reform may properly, in this general review, be pointed by illustrations drawn from the history of the different companies as disclosed in the course of the inquiry.

The freedom from legislative control which obtains in Great Britain in life insurance matters and which is so much emphasized in the statements of British actuaries and managers put before the Commission, indicates an ideal condition; no legislative check upon investments, no standard legal reserve, but a system of returns which lends itself to complete publicity in all essential business details. If the conditions of the life insurance business in this country bore any proximate resemblance to British conditions, a similar legislative freedom might induce similar positive results here. But in the opinion of your Commissioners the conditions are quite dissimilar.

In Great Britain life insurance companies are usually managed by scientific actuaries, who devote themselves to life insurance business alone.

More attention is paid to soundness of insurance basis and accuracy of insurance results than to financing on a large scale.

A British life insurance company is not an enterprising aggregation of capital seeking to influence the markets or hold the financial balance of power.

Then there is in Great Britain a large body of trained expert actuarial opinion, and insurance companies cannot stray far from sound methods, without detection and publication of their error.

In the main, Canadian conditions are quite the opposite.

Yet, so far as abuses have not been developed in practice, freedom is to be preferred to legislative control. The task before your Commissioners is to be performed with a view to recommending changes in the existing law in those respects only in which it has failed to prevent some real wrong.

An orderly arrangement of the topics which fall to be dealt with will much assist in the discussion.

(1) The share which policyholders ought to have in the active supervision of the management.

(2) The relation of directors to policyholders and their interests, including questions of individual or concentrated control, and the powers and duties of directors with regard to investments and management generally.

(3) These two topics will properly lead up to the subject of mutualization.

(4) The important question of expense demands the most careful examination, in view of the alarming increase in the ratio of general expense to income, especially

in respect of the initial or first year's expense, and in view of conditions arisin largely from the headlong struggle for large accretions to the volume of business.

(5) A topic of the last importance is the range of permissible investments. This topic includes a discussion of the systematizing of the present powers and of bringing all existing companies under uniform provisions. It also calls, in view of the conditions which prevail in some companies, for an examination of the principles which ought to guide the management in making investment within the permissible range, and the personal relations of the management towards the properties and securities in which investment is made. It also demands an inquiry into the subject of allied and subordinate companies as a means or vehicle of investment.

(6) The valuation of policies is a subject of great importance, involving, as it does, the vital question of solvency in respect of insurance obligations.

(7) Closely allied with the foregoing topic is the question of lapse and surrender values, and the question whether some, and if so, how much uniformity in respect of insurance practice in this regard should be prescribed.

(8) This naturally leads to the question whether the policy forms of permissible insurance should be simplified and an attempt made to standardize them.

(9) What, if any, remedy ought to be devised to secure to policyholders the ascertainment and distribution of the profits to which they are entitled? Is the modern practice of companies to hold and administer large accumulated surplus funds, undistributed and unaccounted for, a practice which ought to be encouraged? Is it consonant with sound principle to treat such moneys as trust funds which belong to policyholders, and in respect of which strict accountability ought to be enforced?

(10) The question of amending the present statutory requirements with regard to returns by the companies, and generally of securing such publicity, by means of those returns and otherwise, as will facilitate comparisons between the methods and results of different companies and minimize abuses in practice, will require careful consideration.

(11) The departmental methods will require examination, with a view to ascertaining whether any and what wider powers and duties ought to be conferred and imposed so that there may be such effective supervision as will secure regularity and propriety in the business of life insurance.

(12) Fraternal insurance is a subject which calls for careful and special examination.

(13) Is it expedient that the state should enter the life insurance field, and if so, to what extent and under what limitations?

(14) Is it expedient and possible, having regard to questions of conflicting jurisdiction which may arise between the Dominion and the provinces, to arrange for practical contractual uniformity throughout Canada?

1. The Share which Policyholders ought to have in the Active Supervision of the Management.

This question concerns participating insurance only. With regard to non-participating insurance, the insured makes his contract, its terms are definite, its amount does not vary with the prudence or imprudence of the insurer, and the laws of the country afford adequate security in the shape of the legal reserve.

But a different question arises in the case of participating insurance. Here the insurer takes the insured into a quasi-partnership and the partner is vitally concerned with those considerations of prudence and imprudence which bear upon the earning of partnership profits.

Seven of the following insurance companies, all of which are empowered t confer the franchise upon participating policyholders, afford them facilities more o less cautious and more or less effective for taking part in company government.

Company.	Voting Qualification in Insurance.	Directors' Qualification.	Vote for Whole or Part of Board
	$	$	
Canada Life	3,000	10,000 Insurance.	Six out of fifteen.
Confederation	1,000	5,000 Insurance.	Whole board, 12; not less than or third must be policy holders.
Federal Life	1,000	Must have stock qualification.	Whole board.*
London Life	1,000	3,000 Insurance.	Three out of nine.
Manufacturers	1,000	Must have stock qualification.	Whole board.
Home Life	1,000	"	"
Northern Life	1,000	"	"
Imperial Life	1,000	"	" *
National Life	1,[illegible]0	"	" *
Royal Victoria	1,000	"	" *
Crown Life	1,000	"	" *
Sovereign Life	1,000	"	"
Monarch Life	1,000	"	"
North American	1,000	5,000	"

* These companies are authorized by Statute to extend the franchise to policyholders but have never done so.

No method hitherto adopted for securing a policyholder's vote has been foun satisfactory. Personal attendance at meetings is not to be expected, and the prox system does not tend towards the expression of individual opinion. But indeed th great body of policy-holders, while not indifferent nor apathetic upon questions o management, is at present powerless for practical purposes. Perhaps it is felt that n one person's views and attitude can affect the management policy. Even if ther were great questions upon which the management divided and upon which policy holders were roused, their proxies would be largely at the command of that part which made the most strenuous canvass. There are numbers but no coherence.

What are the evils, actual or possible, which the better representation of policy holders in the management may be expected to cure or mitigate?

(1) The possibility of mismanagement of funds and investments.
(2) The possibility of extravagance in expenditure.
(3) The possibility of unfair treatment of policy-holders:
   (*a*) upon their insurance contracts.
   (*b*) in respect of profits.
(4) Unwise contracts of insurance.
(5) The entrenchment in power of the management.

Your Commissioners have considered with much anxiety the question whethe it may reasonably be hoped to prevent or mitigate these evils by enlarging the right of policy-holders. It is believed that many of them will be practically ended if th recommendations made under other heads of this report are adopted, particularly those relating to investments, expense, the simplification and standardization of in surance contracts, returns and publicity. It does not seem practicable to legislat effectively against the acquisition of controlling stock interests. If the abuses likel to arise from the concentration of interest and entrenchment in office are not pre vented by prohibiting dealings in which those who embody the concentration an entrenchment are interested, they are not to be prevented by any combination o policyholders of which there is any historical instance.

It is, however, hoped that better provision may be made for bringing home to th policy-holders the questions which so vitally concern them. The law as to proxies an voting, which is recommended in the case of mutual companies, and which is mor fully discussed hereafter, may well be applied to those stock companies which hav

extended a franchise, hitherto illusory, to their policy-holders. If it should be found in practice to be effective in the case of those companies, its extension to others may require future consideration.

In the attempt made by your Commissioners to suggest improvements to the existing law in this respect it is intended to put all companies which admit policy-holders to vote, upon the same footing with regard to the policy-holder's voting qualification and to make the possessor of the voting qualification eligible to the office of director.

With regard to mutual companies, of which there is now, properly speaking, only one, different considerations arise, not because the evils to be apprehended are different in their character, nor because it may not be hoped to reach them by the introduction of the amendments which have been referred to, but because it is of the essence of a mutual company that the policyholder should govern. It is, therefore, of importance that his government should be real and not a figment, and that apart altogether from respect for the safeguards which the legislation referred to may interpose, the management should at all times have a wholesome sense of real responsibility to an active and wide-awake constituency.

The proxy system is capable of much improvement, upon very simple lines. It would not, in the opinion of your Commissioners, be wise to abolish it, and to substitute voting singly by mail. Policyholders are a scattered body, and should have the ability to unite in expressing their views which the proxy system alone can secure. But every proxy should be given for the single occasion only which brings it into being, and should not be capable of use beyond that occasion. This will stimulate the interest of the policyholder, and minimize the abuse of his proxy.

The proxy given for the special occasion should not be a stale proxy when used, but should be executed by the policyholder within three months before the occasion of its use.

The Commission is aware that this recommendation may, and perhaps will, involve something in the nature of an annual election campaign, but this is not, in the opinion of your Commissioners, undesirable, as it makes for the education of the constituency and for the vigilance and good conduct of the directors.

To personal voting and proxy voting as above limited, there can, in the opinion of your Commissioners, be no objection to add the single voting by mail. This method of expressing the policyholders' views would, in practice, be limited to the vote for directors. No policyholder would be aware of any of the other questions which might arise in the meeting at which the vote is given. Your Commissioners have considered with care the question of informing the policyholders in advance what questions are to be discussed. There is much to make this desirable, but there is against it, not only the expense involved but another circumstance which your Commissioners think decisive. It has been the practice with some companies in the past to make provision forbidding any question to be raised or any motion made at a general meeting without certain prescribed notice. These provisions have tended to minimize criticisms, and, therefore, should not, in the opinion of your Commissioners, any longer be permitted to continue. If, then, there is to be an open door to discussion at these meetings, it will not be practicable to give full information to policyholders, in advance, as to the business to be done, and any attempt to give such information might mislead.

But with regard to the election of directors the position is different. Every policyholder ought to be put in possession in ample time of the information necessary to enable him to make an intelligent choice. There should be a system of nominations, under which, at a convenient date before the meeting, the candidates who are eligible for election are definitely ascertained. Their names, when so ascertained, ought to be notified to the policyholders, so that if not in attendance at the meeting they may vote by mail or give their proxies intelligently.

The method of nomination and election adopted in the State of New York in the recent insurance legislation there has recommended itself to the Commission, with some modifications. The scheme may in legislation take the following shape:

(1) The following provisions shall extend and apply to every mutual life insurance corporation and to every other life insurance corporation having a capital stock whether called by the name of capital stock, guarantee fund, or any other name, under the jurisdiction of the Parliament of Canada, whose policyholders now are or shall hereafter become entitled to vote for directors, whether in common with stockholders or by a separate vote, save that the provisions of section (5) and so much of section (4) as relates to the withdrawing before the election of the lists therein mentioned shall not apply to the case of such separate vote.

(2) At every election of directors, every policyholder whose insurance shall be in force and shall have been in force for at least one year prior thereto, shall be entitled to vote without other qualification, either in person or by proxy, or by mail, as herein provided.

(3) Every such policyholder shall be entitled to one vote only, irrespective of the number of policies or the amount of insurance held by him, and unless a policy shall have been assigned more than six months prior to the election by an assignment absolute on its face to an assignee other than the corporation which have issued the policy, the person upon whose application the policy shall have been issued, or, if the application be signed by more than one person, the person whose life is insured shall be deemed to be a policyholder entitled to vote as aforesaid; in case a policy shall have been assigned as aforesaid, the assignee shall be deemed to be a policyholder entitled to vote, provided his signature, attested by the assignor, shall have been filed at the head office of the corporation which shall have issued the policy.

(4) At least five months prior to every such election every such corporation shall file with the Superintendent of Insurance two full and correct lists of the names and last known post office addresses of all policyholders who will be entitled to vote thereat under the foregoing provisions. The names of said policyholders shall be arranged on said lists alphabetically and shall be classified by provinces and territories of Canada, the kingdom of Great Britain and Ireland, other British possessions and foreign countries and states. Such corporation shall also maintain two similar lists at its head office; and at its general agencies in every province and territory of Canada. All said lists shall be subject to inspection and copy at any time during business hours by any policyholder in said corporation or by his authorized representative, during the five months prior to such election; provided, however, that after such election, or, if no candidate shall have been nominated other than those nominated by the board of directors, then after the time for such independent nominations shall have expired, such lists may be withdrawn by the corporation filing and maintaining the same as aforesaid.

(5) At least five months prior to the date of any election of directors in any such corporation, the board of directors shall nominate a candidate for each vacancy to be filled at such election in the filling of which policyholders are entitled to vote, and shall also appoint three persons, jointly or severelly, to receive proxies to be voted for said candidate or candidates, and shall also file with the Superintendent of Insurance at its head office and at the office of the general agency above described a certificate of the name or names of the candidate or candidates so nominated and of the persons so designated to receive said proxies.

(6) Any ten or more policyholders of such corporation entitled to vote may also nominate a candidate for each such vacancy, by filing with the Superintendent of Insurance and at the head office of the corporation, at least three months before the election, a certificate signed and attested, giving the names and addresses of the candidates nominated and the names and addresses of three persons, jointly or severally, designated to receive proxies to be voted for said candidates.

(7) At least two months prior to any such election the corporation shall cause to be mailed in a sealed envelope to each policyholder whose name sholl be upon said list and whose policy shall still be in force, at his last known post office address, a printed ballot paper containing the names of the candidates nominated as hereinbefore provided and of the persons so appointed to receive proxies, conveniently arranged so as to indicate and distinguish between the different nominations. The ballot paper shall have printed upon it the name of the company, the post office address of its head office, the number of directors to be elected and the names of those whose terms expire, the date of the election and instructions as hereinafter provided for the use of said ballot paper and of the proxy hereinafter mentioned, and a designated space for the signatures of the policyholder and of a subscribing witness.

(8) There shall be inclosed in such sealed envelope with such ballot paper, a suitable return envelope, having thereon the name and post office address of the head office of the corporation the words 'ballot for directors' and a designated space for the policyholder so voting to write his name, his post office address and the number of at least one policy held by him. There shall also be inclosed in such sealed envelope a suitable blank proxy upon which shall be printed a statement of the right of the policyholder to vote either by mail or by proxy as herein provided or in person.

(9) No other paper or written or printed matter shall be inclosed in such sealed envelope, and specimens of such sealed envelope and inclosure shall be approved by the Superintendent of Insurance before being so mailed.

(10) A policyholder desiring to vote by mail may indicate upon the ballot paper the name or names of the candidate or candidates for whom he desires to vote by making a cross or crosses opposite such name or names or by striking out the name or names of those for whom he does not desire to vote, or he may otherwise suitably indicate the same in writing, and he must sign the said ballot paper or other writing in his own handwriting in the presence of a subscribing witness, and inclose the same in such return or a similar envelope, upon which must be written his signature in his own handwriting and his post office address and the number of at least one policy held by him. Such return or similar envelope may be mailed post paid by the policyholder to or may be delivered at the head office of the company.

(11) No policyholder may vote for more than the number of directors to be elected, and all ballots upon which the intent of the policyholder does not fairly appear shall be void.

(12) Any policyholder may vote by proxy executed to any person, whether designated in the certificates filed as aforesaid or otherwise.

(13) The execution of any proxy shall be attested by a subscribing witness and the proxy shall set forth the number of at least one policy held by the person giving it.

(14) A proxy shall not be valid unless executed within three months prior to the election and shall be used only at such election or any adjournment thereof and may be revoked by the policyholder giving the same at any time to the opening of the polls upon the day of such election.

(15) The votes at such election shall be limited to the candidates nominated as aforesaid.

(16) The election shall be by ballot and shall be held at the head office of the company, and the polls shall be opened at ten o'clock in the forenoon and remain open until four o'clock in the afternoon of the day of the election, at which time they shall be closed. The board of directors shall appoint an adequate number of scrutineers who shall be qualified voters and shall be paid for their services by the company. Every ballot except those cast by proxy shall be signed by the policyholder in his own handwriting. In casting a vote under a proxy the proxyholder, or, if three or more persons are named jointly in the proxy, a majority thereof, shall place his name and address or their names and addresses on the ballot and shall indicate thereon the number of votes offered under the proxy.

(17) All envelopes received at the head office of the company marked substantially as 'ballot for directors' at any time before the day of election or on that day before the polls are closed shall be preserved intact without opening, and before the polls are closed shall be delivered to the scrutineers. Any person concealing or withholding, or participating in the concealment or withholding, from the scrutineers, or, not being a scrutineer, opening or being privy to the opening of any such envelope, shall be guilty of a misdemeanour.

(18) No ballots received by mail or delivered at the head office of the company or offered personally or by proxy after the polls are closed shall be counted.

(19) All ballots offered personally or by proxy and all ballots received by mail or delivered at the head office of the company, as aforesaid, before the polls are closed, shall be received by the acrutineers, subject to verification and ascertainment of the validity thereof and of the qualifications of the voter.

(20) Immediately upon the closing of the polls the scrutineers shall proceed to the examination of the ballots and shall count the votes lawfully cast. The count shall proceed from day to day and the scrutineers shall certify the result to the company as soon as it is completed.

(21) One qualified voter, designated by a majority of each three persons who shall have been appointed to receive proxies to be voted for nominations as aforesaid, may be present during the casting and the counting of the votes.

(22) All ballots, proxies and envelopes received by the scrutineers shall immediately upon the completion of the count be placed in sealed packages and shall be preserved by the said scrutineers for a period of four months, subject to the order of any court having jurisdiction in respect thereof.

(23) No expense incurred in the preparation, printing, circulation, obtaining or use of proxies, other than those provided for by section 8 hereof, shall in any case be borne or paid in whole or in part by the corporation.

(24) The including by any corporation of the name of any person in any list of policyholders required by this section shall not be construed as an admission by the corporation of the validity of any policy, and no such list shall be competent evidence against the corporation in any action or proceeding in which the question of the validity of any policy or of any claim under it is involved.

SUMMARY.

1. As to mutual companies and companies which now permit shareholders to vote, make the voting franchise and directors' qualifications uniform.

2. For the present do not force the policyholders franchise upon companies in which no such franchise now exists.

3. Where the franchise exists, election of directors by ballot and policyholders to have right of nomination.

4. Policyholders may vote at elections in person, by proxy or by mail.

5. Proxies to be furnished policyholders for purpose of election, and to be good for election only.

6. Abolish requirements as to notice of motion for general meetings.

7. Publication of lists of policyholders.

II.—The Relation of Directors to Policyholders and their Interests, including Questions of Individual or Concentrated Control and the Powers and Duties of Directors with Regard to Investments and Management generally.

It seems to the Commission of importance to define the nature and position of the funds resulting from the operation of insurance companies. Save in so far as capital stock plays a part, these funds are either a reserve kept in hand to discharge the insurance obligation or a surplus resulting from a charge upon the persons insured in excess of what it has cost to insure their lives. The policyholder contributes

both reserve and surplus, and where business is done upon the participating plan it is the surplus moneys that are called profits. How unimportant a part may be played by capital stock is demonstrated by an examination of the table showing the capitalization of the different companies, in an early part of this report. In truth, when an insurance company's position has become established, its capital stock becomes a mere document of title by virtue of which a particular body of persons control those larger and more important funds which the policyholders contribute. And there is reason to fear a confusion of ideas, with regard to his relation to these funds, on the part of the person in control.

Insurance companies tend to become powerful aggregations of money, with financial rather than insurance aims. The power to engineer these aggregations becomes a thing to be desired by financial operators, and the acquisition of the documents of title, the stockholdings, which may be of the pettiest face value, carries that power with it. A striking instance is stated in the report of the Armstrong committee. An insurance company had a capital of $100,000, the dividends upon which were limited to 7 per cent. The dividends upon a controlling interest, $50,200, could therefore never exceed $3,514. Yet for that controling interest, $2,500,000 was paid.

The Commission attributes to this feature of the insurance practice of the present day most of the evils under which the insuring public suffers. The race for new business, with its extravagant expenditure and its forced and in consequence more or less non-persistene additions to the volume of insurance, is distinctly one of its results. The large companies in the United States, which had fallen into the hands of financiers with whom insurance was but a means to an end, began the struggle for larger accumulations of money, and smaller companies were drawn into the current of extravagance. The deferred dividend system was devised to facilitate the accumulation and retention of policyholders' money. Speculative instead of investment fields are eagerly sought. Directors aim at the forwarding of their own schemes. Underwritings and syndicates, the select machinery of finance, are operated with insurance funds.

And what is the character of these funds? Are the purposes to which they are being devoted consistent with that character? Your Commissioners have no doubt that accumulated insurance funds are, in every essential particular, trust funds. They belong to the policyholders and not to the shareholders. The directors are not in possession of them as trading capital in any sense or to any degree. They are not subject to trading risk. They are held in trust for investment and to be eventually paid to those whose moneys they are. Being trust funds the function of the directors in regard to them is the function of trustee. Once the subject is put upon this simple basis the criterion for determining the propriety of any particular dealing by the directors with these funds also becomes simple. Ought a trustee to do this with trust funds? Once this is recognized as the test, all difficulty disappears.

If the concentration or individualizing of control is made the means of diverting the trust funds from the trust purpose, even temporaily, this fundamental law is broken. If vehicles of investment which are outside the statute governing investments are employed, the law is broken. If permitted vehicles of investment are employed to aid the private interests of the trustee, the law is broken again. No trustee is permitted to occupy a dual position with regard to his trust. He cannot be upon both sides of a transaction.

The control by one hand creates a situation which requires the most jealous scrutiny. It involves the removal of those restraints upon conduct which are promoted by equal discussion upon equal terms among co-trustees. It is not practicable, nor, in the opinion of your Commissioners would it be wise to legislatively forbid it. Interference with the free purchase and sale of property of any kind would be out of joint with the times. But it is practicable to put safeguards upon the exercise of that control so as to prevent or minimize its abuse. No director should be permitted to have any personal interest whatever whether as principal, agent or beneficiary in

any property which is the subject of investment by his company, or in any of hi company's transactions. Underwritings and syndicates for the handling of securi ties should be forbidden altogether. Nor should there be any dealing between an in surance company and any other company of which any director of the insuranc company is a shareholder.

All contracts with officers should be authorized in express terms by the board c directors and no such contract should be for a longer term than three years. Th providing in any such contract for remuneration to the officer by way of commissio out of future income should be prohibited. The rebating to or rewarding particula policyholders under the guise of payment for services as members of local or advisor boards and the like should be prohibited.

III.—MUTUALIZATION.

The history of the only purely mutual company under license, The Mutual Lif Assurance Company of Canada, having its head office at Waterloo, is proof of th possibility of successful operation without a capital stock. The comparatively smal paid up capial stock upon which most of the stock companies have built their busi ness goes far in the same direction. The Canada Life, with its $1,000,000 of paid u capital, is no exception, for its great business was built upon a capital of $125,00C of which half was paid out of profits. So, too, with the Sun Life. The whole cash apart from profits, necessarily put up by its shareholders, was $62,500.

It seems reasonably plain that if an insurance business possesses the element of success, the capital stock soon ceases to play any important part in its operation It is difficult to deny, however, to the capital actually adventured, the position o security and profit which its adventure has earned. In cases like that of the Canad Life, where $875,000 was put into an established and flourishing business, for th sole purpose, so far as the Commission has been able to ascertain, that it might earn at the expense of the policyholders, a larger rate of interest than it inherently com manded, no such considerations apply.

Your Commissioners are not satisfied that there is any real demand for mutuali zation among policyholders. It may well be that the majority prefer the additiona security which the existence of a capital stock affords. With the machinery recom mended for enabling them to express their opinions more effectively, they may, per haps, be heard from in the future.

In this connection it must be remembered that in the case of the one purel mutual company within the range of this inquiry the existence of the mutual prin ciple has not prevented the management from retaining practical continuity o control.

IV.—EXPENSES.

Before dealing with the large and perplexing question which arises from the ex traordinary forcing of new business and the consequent wasteful expenditure in secur ing it, the Commission presents such a financial history of the Canadian compan ies, in outline, for the year 1905, as will place the problems to be solved in a plai and concise form.

The various companies were required to furnish statements of their profits an losses during 1905, on forms provided by the Commission. The Central Life wa excepted because its operations were too recent to give results of value; and the Unio Life because, without a similar statement from its agency company, the informatio furnished would have been misleading.

The aggregate profits* for the year, as shown by these statements, were $5,507,903, and the aggregate losses $2,600,285, leaving a total net profit of $2,907,618, or 52·8 per cent of the gross profits, but, as explained in a subsequent table, 'Profits' includes the writing up of securities still held. For instance, in the case of the Sun Life, as will shortly be seen, more than a million dollars of writing up was included.

*By this, 'gross earnings', as in a railway company's statement, are not intended; but merely the sum of profit balances in the profit and loss statements.

All the companies except four show a net profit for the year, the exceptions being the Crown, Sovereign, Royal Victoria and Home. Their combined net loss was $87,464.

The companies differed very widely in the percentage of the gross profits saved. Table I. collects the profits and losses.

TABLE I.

SHOWING the Total Profits, Total Losses and Net Profits or Losses.

Company.	Total Profits.	Total Losses.	Per Cent.	Net Profits.	Per Cent.	Net Losses.	Per Cent.
	$	$		$		$	
North American	352,114	190,846	57.5	161,268	42.5		
Manufacturers	412,597	246,677	59.8	165,920	40.2		
London	64,595	36,079	55.9	28,516	44.1		
Excelsior	79,973	52,540	65.7	27,433	34.3		
Continental	7,077	3,055	43.2	4,022	56.8		
Crown	33,769	43,329	128.3			9,558	—28.3
Imperial	228,203	139,609	60.8	88,594	39.2		
Canada Life	965,385	459,957	47.6	505,428	52.4		
Confederation	325,238	149,232	45.9	176,006	54.1		
National	49,744	22,965	46.2	26,779	53.8		
Sovereign	21,537	41,002	190.7			19,465	—90.7
Federal	171,078	105,972	61.9	65,106	38.1		
Mutual	417,813	149,956	35.[illegible]	267,857	64.1		
Dominion	49,231	32,091	65.2	17,140	34.8		
Northern	42,972	24,805	57.5	18,167	42.5		
Great West	225,598	141,538	62.7	84,060	37.3		
Sun	2,003,909	645,123	32.[illegible]	1,358,786	67.8		
Royal Victoria	19,193	43,623	227.3			24,430	—127.3
Home	37,877	71,888	189.7			34,011	—89.7
	5,507,903	2,600,285	47.2	2,995,082		87,464	
				87,464			
				2,907,618	52.8		

The foregoing table shows a reduction of the aggregate earnings, by means of losses, to the extent of nearly one-half, without regard to expenses of management, strictly, or to death-claims and similar outgoings, except as to any balance of expenditure over the provision therefor. These have been provided for before arriving at the total profits. The losses to be deducted appear, therefore, to be such as might conceivably have been avoided, and if they had been avoided, the total earnings of $5,507,903 would have been left intact.

An inspection of the exhibits from which Table II. has been compiled shows that no less than $1,554,430, or 53½ per cent, of the net profits, is from two sources:

Gains upon sales or maturities	$599,887
Increase in market values	954,543

TABLE II.

Showing Gains and Losses by Sales or Maturities and by Changes in the Market Values.

Company.	Sales or Maturities.		Changes.		Net	
	Gain.	Loss.	Gain.	Loss.	Gain.	Loss.
	$	$	$	$	$	$
North American	3,721		None	reported.	3,721	
Manufacturers	21,458	5,848	64,384		79,994	
London	1,075		1,030	70	2,035	
Excelsior			484		484	
Continental	2,231		83		2,314	
Crown			2,488	24	2,464	
Imperial	1,274		9,392	651	10,015	
Canada	74,380	4,000	155,949		226,329	
Confederation	119,320	84,536	52,164	45,989	40,959	
National			4,898		4,898	
Sovereign			4,977		4,977	
Federal	22,515	117	27,499	3,931	45,966	
Mutual						
Dominion	484				484	
Northern			459		459	
Great West						
Sun	645,145	207,215	1,054,803	362,515	1,130,218	
Royal Victoria				1,276		1,276
Home			389		389	
	891,603	291,716	1,378,999	424,456	1,555,706	1,276
					1,276	
				Net gain...	1,554,430	

This is 53·5 per cent of the total net profits. As wide a fluctuation the other way would have made the year's transactions show a net loss.

These gains are due to present favourable financial conditions.

The total interest realized, after deducting investment expenses, amounted to $4 262,690.16, which averaged 4·685 per cent upon the assets held by these companies on 1st January, 1905, or rather under 4½ per cent on the mean assets for the year.

The Commission requested the companies to deduct the interest credited to special funds, as well as the interest required to make good the reserve, in arriving at the true profit from interest. But this request was variously interpreted, dividends on capital stock and the like being deducted in some cases.

The aggregate capital of these companies on 1st January, 1905, was $3,743,706.64 and the surplus funds, $9,0[illegible]5,566.33, making a total of $12,829,272.97. Interest on this at 4½ per cent is $577,767.24 and the interest required to make good the reserves is placed at $3,261,063.90, or in all, $3,838,831.14. The total interest realized was $4,262,690.16. The difference, which is surplus interest actually available for distribution to policyholders (otherwise than in interest on accumulations of surplus), is $423,859.02, or a margin of about 10 per cent.

On the basis of the net excess over what is required to make good the reserve, the percentage is about 23 per cent; but this includes the interest on accumulations of surplus.

One company, only, failed to realize interest enough to make good its reserves. Another showed an excess of but 2 per cent.

TABLE III.

Showing proportion of Net Interest Returns (Deducting Investment Expenses) to Interest Required to make good the Reserves.

Companies.	Net Interest Returns.		Required to make good Reserves.		Ratio.
	$	cts.	$	cts.	p.c.
North American	282,598	65	246,808	83	114.5
Manufacturers	270,579	36	234,790	00	115.3
London	83,333	00	65,228	00	127.7
Excelsior	50,018	60	33,069	52	151.3
Continental	15,712	42	10,557	83	149.0
Crown	7,879	68	6,714	22	117.4
Imperial	116,507	00	68,019	00	171.2
Canada	1,216,119	47	929,892	00	130.8
Confederation	481,316	00	421,441	00	114.2
National	10,703	91	12,635	00	84.7
Sovereign	13,977	03	3,477	68	401.9
Federal	96,640	08	77,023	[illegible]	125.5
Mutual	391,172	69	332,902	29	117.5
Dominion	54,017	36	29,335	35	184.1
Northern	23,365	00	13,749	00	169.9
Great West	150,170	00	73,396	00	204.6
Sun	958,931	77	670,896	71	142.9
Royal Victoria	16,037	15	15,725	61	102.0
Home	23,611	00	15,402	00	153.4
	4,262,690	16	3,261,063	90	130.7

The assets of these companies on January 1, 1905, were $90,982,611.24 on which the net rate realized was 4·685 per cent. Of these assets, $3,743,706.64 represented capital and $9,085,566.33 accumulated surplus, upon both of which interest must be computed as well as upon reserve, in order to make a proper analysis.

The commission required the companies to show in their profit and loss statements the net amount of death claims expected in 1905, as to policies issued in that year and as to other policies, separately, and also the net amount of death claims actually met with.

The total net mortuary claims in these companies during 1905 were $3,021,-847.96 and the amount expected, in accordance with the Hm. mortality table, which is the Canadian standard for computing the value of policy obligations, was $4,410,202.54. The actual claims, therefore, were but 68½ per cent of the expected.

Individual companies in other countries have shown as low a ratio as this, but so low a combined experience as this, has never, this commission is advised, been presented heretofore. Doubtless it is in part due to the youth of many of the companies and to the large volume of recently-issued business in all the companies; but in large part it is due to the climatic and vital conditions of this country.

The ratios in individual companies vary from 24 per cent to 114 per cent, only two, however, showing percentages in excess of the expected. Though some of the variations are in part explained by acceptance of lives in the tropics, by comparative laxity in accepting risks, by the smaller or larger proportion of freshly selected lives and the like, the widest variations are explained chiefly by the fact that the companies in which they occur have not yet sufficient business to assure a reliable average from year to year. The smallest and largest ratios are found among the newer and smaller companies.

TABLE IV.

SHOWING Total Expected and Total Actual Net Death Losses

Companies.	Expected.		Actual.		Ratio.
	$	cts.	$	cts.	p.c.
North American	331,561	00	199,853	00	60.
Manufacturers	394,100	00	253,226	51	64.
London	117,271	00	79,232	00	67.
Excelsior	57,795	42	25,485	98	44.
Continental	31,364	85	7,580	57	24.
Crown	287,520	00	14,080	00	49.
Imperial	155,852	00	85,247	00	54.
Canada	1,098,061	02	817,797	06	74.
Confederation	402,423	00	256,061	00	63.
National	47,208	96	15,810	04	33.
Sovereign	11,684	76	13,375	00	114.
Federal	180,574	89	139,066	04	77.
Mutual	397,613	56	201,947	49	50.
Dominion	50,647	62	39,008	00	77.
Northern	37,401	00	15,433	00	41.
Great West	206,800	00	110,381	00	53.
Sun	792,581	05	694,236	37	87.
Royal Victoria	31,894	41	36,344	90	113.
Home	36,616	00	17,683	00	48.
	4,410,202	54	3,021,847	96	68.

The table of mortality by which the expected death claims were computed- which is also the standard for valuation in Canada—is the Hm table, a tab compiled from the history of lives insured in the leading British companies. covered only up to and including the year 1863, and grouped together all lives at th same age, without regard to duration of insurance. A more recent investigatio covering up to and including 1893, shows that this older table was about correct f British companies during that period, if applied to lives insured longer than years (Om (10) table but that, owing to careful medical examination and selectio the mortality during the first ten years is much lower (O (m) Select Table).

The expected death-claims in 1905 on policies issued that year, computed by th Hm table, were reported by these companies to be $341,439.67, and the actual deat claims $190,569.41, or about 56 per cent. Probably this lower mortality is explaine by the influence of fresh medical selection upon the lives considered, so large a pr portion of them having been recently accepted. The extreme variations shown a due to the comparatively small number of lives at risk.

TABLE V.

SHOWING Percentage of Actual to Expected Losses in respect of Policies issued within the year (1905).

Companies.	Expected Losses.		Actual Losses.		Percentage.
	$	cts.	$	cts.	p.c.
North American	22,550	00	4,805	00	21.3
Manufacturers	32,460	00	14,650	00	45.1
London	14,270	00	5.065	00	35.1
Excelsior	9,435	53	3,397	28	36.0
Continental	4,640	51	947	08	20.4
Crown	5,560	00	Nil.		
Imperial	17,093	00	6,474	00	37.9
Canada	54,780	00	36,398	00	66.4
Confederation	22,884	00	9,119	00	39.9
National	7,559	25	Nil.		
Sovereign	2,728	22	Nil.		
Federal	13,021	72	Nil.		
Mutual	24,393	27	26,414	00	108.3
Dominion	4,126	79	8,234	50	199.5
Northern	5.338	00	3,000	00	56.2
Great West	23,500	00	4,500	00	19.2
Sun	67,597	13	63,065	55	93.3
Royal Victoria	5,848	25	2,500	00	65.0
Home	5,654	00	2,000	00	35.4
	341,439	67	190,569	41	55.8

In respect of policies issued before 1905, the expected death claims in 1905 were $4,068,762.87 and the actual death claims, $2,831,278.55, or about 70 per cent, showing a salvage of $1,237,484.32.

The variations are not so wide as in the ratios for the calendar year of issue, the number of lives being proportionately much larger. Yet they vary from 25 to 149 per cent, only two companies showing ratios exceeding 100 per cent.

TABLE VI.

SHOWING Expected and Actual Death Losses under Policies issued before 1905.

Companies.	Expected.		Actual.		Ratio.
	$	cts.	$	cts.	p.c.
North American	309,011	00	195,048	00	63.1
Manufacturers	361,640	00	238,576	51	66.0
London	103,001	00	74,167	00	72.1
Excelsior	48,359	89	22,088	70	45.7
Continental	26,724	34	6,633	49	24.8
Crown	23,192	00	14,080	00	60.7
Imperial	138,759	00	78,773	00	56.7
Canada	1,043,281	02	781,399	06	74.9
Confederation	379,539	00	246.942	00	65.1
National	39,649	71	15,810	04	39.9
Sovereign	8,956	54	13,375	00	149.3
Federal	167,535	17	139,066	04	83.0
Mutual	373,220	29	175,533	49	44.1
Dominion	46,520	83	30,773	50	66.1
Northern	32,063	00	12,433	00	38.8
Great West	183,300	00	105,881	00	57.8
Sun	724,983	92	631,170	82	87.1
Royal Victoria	28,046	16	33,844	90	120.7
Home	30,962	00	15,683	00	50.7
	4,069,762	87	2,931,278	55	69.6

To the net premiums, computed by the same standards as are used in computin reserves, is added an amount estimated to be required to cover expenses, continge cies and in some cases a provision for dividends to policyholders. This is called th 'loading.' Companies compute this loading in various ways.

The companies were required to show, separately, for first year and renewal pr miums, the loadings received in 1905. The total sum shown was $3,615,463.96. The were also required to show the year's total expenses, other than in caring for inves ments; this total was $5,105,630.30, or 141 per cent of the entire loadings received.

If, therefore, the total loadings received during the year had been originall provided to defray expenses only, the whole provision made by the companies for th year's expenses was exceeded by no less a sum than $1,490,166.34. But the loadin is not provided for that purpose solely but also to provide for contingencies, such a deficiency in interest, mortality in excess of the provision for same, investment losse &c., and, theoretically, in most cases for 'profits,' as well

It is a significant fact that not one of the companies kept its expenditure fo 1905 within the loadings.

TABLE VII.

Showing ratio of Total Expenses (exclusive of investment expenses) to Total Loading

Companies.	Total Loading.	Total Expenses.	Ratio.
	$ cts.	$ cts.	p.c.
North American	303,743 69	377,239 90	124.2
Manufacturers	356,386 58	455,992 79	128.0
London	121,816 00	159,272 00	137.5
Excelsior	79,281 34	107,612 03	135.7
Continental	29,359 87	86,766 40	227.4
Crown	30,860 97	74,754 41	242.2
Imperial	147,024 00	252,043 00	171.4
Canada	555,860 65	899,542 85	161.8
Confederation	290,188 00	365,805 00	126.1
National	39,200 91	67,793 59	172.9
Sovereign	15,536 11	54,848 32	332.4
Federal	90,113 02	200,512 61	222.5
Mutual	260,740 46	314,506 02	126.2
Dominion	40,256 38	60,863 62	151 2
Northern	34,275 00	58,355 00	170.3
Great West	170,940 00	254,852 00	149.1
Sun	985,147 87	1,183,340 58	120.1
Royal Victoria	32,158 11	66,207 18	258.8
Home	32,575 00	85,323 00	261.9
	3,615,463 96	5,105,630 30	141.2

But let us make a further analysis and compare the renewal loadings and firs year loadings with their corresponding expenditures, separately.

The total renewal loadings received in 1905 were $2,926,178.67, and the total ex penses, other than the reported cost of new business, were $1,826,510.41, or about 6 per cent.

This means that, if the expenditure made in respect of new business had bee kept within the initial loadings or if no new business had been done at all, the load ings instead of showing a net loss of $1,490,166.34, would have yielded a net profit o $1,099,668.26, available for dividends to policyholders.

TABLE VIII.

Showing proportion of Renewal and Management Expenses to Loading on Renewal Premiums.

Company.	Loading on Renewal Premiums.	Renewal and Management Expenses.	Ratio.
	$ cts.	$ cts.	p.c.
North American	258,185 55	143,753 58	55.7
Manufacturers	291,715 04	128,193 49	44.0
London	102,900 00	95,256 00	92.6
Excelsior	61,286 61	35,827 32	58.5
Continental	21,017 55	17,238 58	82.0
Crown	21,981 52	17,281 27	78.6
Imperial	115,277 00	70,068 00	61.3
Canada	478,101 85	354,112 49	74.1
Confederation	216,608 00	143,445 00	66.2
National	26,238 90	28,898 97	110.1
Sovereign	10,381 36	25,987 83	250.4
Federal	73,056 99	64,462 73	88.2
Mutual	227,566 21	136,422 87	60.0
Dominion	31,588 70	24,270 83	76.8
Northern	25,185 00	22,022 00	87.4
Great West	128,146 00	51,843 0[illegible]	40.4
Sun	785,846 30	406,031 [illegible]8	51.7
Royal Victoria	26,812 09	40,063 87	149.4
Home	24,284 00	21,331 00	87.8
	2,926,178 67	1,826,510 41	62.4

The next table compares the cost of new business during the year, $3,279,119.89, with the loadings on first year's premiums received, $689,285.29. The former is 476 per cent of the latter. The net deficiency is $2,589,834.60.

Here variation is due chiefly to relative extravagance or economy. The lowest ratio is 300 per cent, the highest is 797.

TABLE IX.

Totals and Ratios of Cost of New Business to Loadings on First Year's Premiums.

Company.	Loadings.	Cost of New Business.	Per cent.
	$ cts.	$ cts.	
North American	45,558 14	233,486 32	512
Manufacturers	64,671 54	327,799 30	507
London	18,916 00	64,016 00	338
Excelsior	17,994 73	71,784 71	399
Continental	8,342 32	49,527 82	594
Crown	8,879 45	57,473 14	647
Imperial	31,747 00	181,975 00	573
Canada	77,758 80	545,430 36	701
Confederation	73,580 00	222,360 00	302
National	12,962 01	38,894 62	300
Sovereign	5,154 75	28,860 49	555
Federal	17,056 03	136,049 88	797
Mutual of Canada	33,174 25	178,083 15	537
Dominion	8,667 68	36,592 79	422
Northern	9,090 00	36,333 00	400
Great West	42,794 00	203,609 00	474
Sun	199,301 57	777,309 00	390
Royal Victoria	5,346 02	26,143 31	489
Home	8,291 00	63,992 00	772
	689,285 29	3,279,119 89	476

There are many difficulties in the way of a satisfactory solution of the question which these tables present in so startling a form. In the first place the loading, which theoretically provides for a large initial expenditure and a subsequent series of much smaller renewal and management expenditures, is not collected, as to the large initial expenditure, coincidently with the incidence of the expenditure itself; but is, together with the subsequent smaller expenditures, spread over the whole life of the policy, in the shape of a uniform level addition to the net level premium. In any case, therefore, if the loading is not excessive, the company cannot have on hand, with and as part of the first premium paid, the whole provision which the loading has made for the initial cost of obtaining insurance, and must borrow it in some quarter. This is a question quite different from any question of *excessive* initial expenditure. If the initial expenditure is entirely normal and proper, there must still be anticipation, to the extent of the difference between the amount of the normal initial expenditure and the uniform level loading. In time, speaking in averages, the expenditure will be recouped out of the later level loadings, which must not only bear the later expenditures but furnish a sort of sinking fund to make the initial expenditure good.

In the normal condition of things, therefore, first year cost cannot be confined within first year loading.

The alteration of the whole system of loading, so as to make the loading in the first year sufficient in itself, would require to be effected either by raising the initial gross premium or, if the gross premium is left level, by raising the loading embraced within it and correspondingly reducing the net premium. The raising of the gross premium is not practicable, under present conditions, and to lower the net premium is to destroy the whole computation upon which it is based and to reduce the reserve, for a time at least.

There must, therefore, be a borrowing from some source, to be recouped out of subsequent loadings, so long as the initial expenditure exceeds the level loading.

But might it not be feasible to put the whole life insurance agency business upon a new footing, so that the agent, instead of being paid a large initial commission upon bringing in a policy which may not persist beyond the first year, and may, therefore, be a source of loss to the company, should be remunerated according to results, spreading his total remuneration meantime over so long a term at least as the policy may be likely to persist? If this is feasible, the large initial expenditure would be brought down towards the level loading, and the latter would tend towards meeting it. In other words, the expenditure, like the loading, would tend to become level.

Your Commissioners believe that with the co-operation of the companies this may be accomplished. Agents who have been debauched by large commissions and by bonuses and prizes, and who have found it possible to make gifts out of their emoluments in the shape of rebates, may leave a field where more temperate and reasonable methods prevail. Those who remain may not find it profitable to force insurance policies upon persons who do not want them except at a discount, and who want them at the discount so little that they lapse in a year or two. There may not be so large a volume of non-persistent business, and it may require fewer agents to handle that which is wholesome and persistent. But your Commissioners see no objection to the adoption of methods which will produce any of these results or all of them. Everyone professes to reprobate rebating, which includes the issuing of policies at special premium rates, 'stock' policies and other similar devices. The companies can put an end to it if they will. And if it is made to the advantage of the companies to bring their initial expenditures within a reasonable proximity to the level loading, by spreading it over such a term as will insure the persistence of the business for which it is paid out, your Commissioners have no doubt this also will be done.

Can an effective remedy for rebating be found? Penal provisions have not hitherto been found availing, because they do not interest the directors of companies in which the practice prevails. Your Commissioners believe that the managers and directors of insurance companies may be brought to take an interest in stopping the practice, if a

substantial money penalty, say $1,000, to be recovered by any person who will sue for it, is imposed upon every manager and director of a company, any of whose agents, whether with or without the knowledge of the manager or director sued, makes any rebate whatever, in respect of any premium or any part of a premium. No indemnity by the company should be permitted in respect of any sum recovered. Your Commissioners desire to put upon record their strong sense of the inherent evil involved in the practice of rebating, not alone because it marks the extravagant race for business and is an encouragement to the writing of non-persistent and unprofitable insurance, but because in and of itself it is dishonest and unrighteous. Without the serious and real co-operation of those having the direction of insurance companies, your Commissioners do not believe that penalties imposed upon the immediate parties to a rebating transaction will prove at all effective. The managers and directors themselves must be compelled to make the law effective by having the strongest personal inducement to do so. Visiting penalties upon the companies punishes the policyholders. Let the managers and directors be personally responsible for the conduct in this respect of those whom they put forward between themselves and the insuring public.

It is confidently expected that much will be done to cure the evil of excessive first cost by removing some of the conditions under which that excess has arisen. The Commission refers in particular to what is recommended under the headings, distribution of profits and returns and publicity. If the inducement to pile up large accumulations of capital for financial purposes is removed, and if full publicity in respect of expenses and methods of investment is compelled, so that the insuring public is reasonably able to inspect, examine and compare, there will, your Commissioners believe, be greater prudence and economy, and less straining after more or less illusory accretions to the volume of business done.

There remains the further question, from what source should the interim borrowing, incident to the level loading not being immediately in hand to meet initial cost, be made? Before discussing this question some further general observations should be made to clear the ground.

From what source is this borrowing made under present conditions?

Old companies, with a large volume of insurance in force, have borrowed in part from the salvage in loadings on renewal premiums in respect of old policies, amounting on the average to 38 per cent of those loadings, as has been noticed, and in part from other surplus earnings belonging to policyholders. Newer companies, without these resources, have either impaired their capital, or created a fund by way of premium on capital stock, and have, besides, appropriated the earnings of older policies, if any. Several companies are, in consequence, in the position of having deferred dividend policies outstanding, each calling for an accumulation of surplus, but without any accumulation to the credit of any of them, and sometimes with an impaired capital in addition. This is virtually equivalent, unless the condition is remedied, to supplying non-participating insurance at participating rates, which are about 20 per cent higher than non-participating rates, this anomalous condition resulting solely from the excessive expenditure for new business.

The key to the mischief is that what has been earned by and belongs to policyholders is improperly spent; and to avoid this by making provision for what is legitimately required for the acquisition of new business, beyond the initial loading, without unduly trenching upon policyholders' money, is the problem to be solved.

The problem is further complicated by the consideration that old policyholders, whose money is being expended, will in reality be benefited by all new business which is acquired by fair expenditure and becomes reasonably persistent.

Bearing these considerations in view, an attempt will be made to analyse the existing conditions and to arrive at a fair solution.

The new premiums received in 1905 by twelve companies amounted to $2,699,915.68, and the amount paid out of these premiums to agents in commissions alone was $1,676,066.65. The rate of commission, therefore, averaged 62 per cent on

the total first year's premiums collected. In these totals, only those companies' figure are included in which commissions are given separately in the returns to the Commission.

There was considerable variation in the ratio as between individual companies partly because of differences in economy and partly because some companies provided other compensation, such as salaries or advances.

TABLE X.

PERCENTAGE of first year's Commissions to Premiums on New Business, 1905.

Companies.	Premiums on New Business.	Commissions first year.	Percentage.
	$ cts.	$ cts.	
North American			
Manufacturers	228,337 88	142,875 42	62.6
London	300,764 98	123,920 74	....
Excelsior	32,610 67†	........*	....
Continental	68,452 32	23,683 59‡	34.6
Crown	25,535 61†	‡	
Imperial	44,931 06†	........*	....
Canada	134,990 96†	........*	....
Confederation	434,547 93	252,565 22	58.1
National	207,598 23	168,659 00	81.2
Sovereign	32,789 30	17,925 26	54.7
Federal	26,374 70	7,977 93‡	30.3
Mutual	97,016 11	72,569 33	74.8
Dominion	248,543 09	130,754 10	52.6
Northern	39,511 08†	........*	....
Great West	37,448 81†	........*	....
Sun	175,390 25	124,818 00	71.2
Royal Victoria	772,445 60a	524,108 25	67.8
Home	24,981 38	16,229 81	65.0
	40,021 42†	........*	....
	2,617,241 77	1,676,066 65	64.00

* No report.
† Omitted from totals.
a These figures arrived at by deducting present value of bonus additions treated in returns by Company as single premiums.
‡ Compensation largely paid in other forms.

Other compensation, however, such as prizes, bonuses, rewards, allowances, salaries and advances, was paid to agents for obtaining new business, as well as commissions. The total remuneration to agents by these companies for new business amounted in 1905 to $1,994,352.16, which, upon the total premiums for the first year, $2,699,915.68, was about 74 per cent. The impression given by the life insurance agents in their memorial presented to the Commission, that the average was in the neighbourhood of 50 per cent, is therefore erroneous.

Abundant testimony is before the Commission, that, largely in consequence of over compensation, agents give away much of their remuneration in rebates, and probably they do not realize more than 50 per cent on the average, nor so much, perhaps, as they would realize, were the aggregate compensation lower than at present.

Specimen contracts with agents made by the various companies are before the Commission. These show commissions alone ranging sometimes as high as 80 per cent, and very commonly as high as 65 and 70 per cent of first year premiums on the usual policy forms.

The ratios of total remuneration for new business to new premiums received vary in individual companies from 45 per cent to 104 per cent, the variation being due, chiefly, to relative extravagance or economy, but perhaps partly to the failure of some companies to include all items of compensation.

TABLE XI.

COMPENSATION to Agents for New Business and its percentage to Premiums received on New Business, 1905.

Companies.	Premiums in New Business.	Compensation.	Percentage.
	$ cts.	$ cts.	
North American	228,337 88	156,160 66a	68.4
Manufacturers	300,764 98	252,048 43	83.8
London	32,610 67†	*	
Excelsior	68,452 32	30,671 97	44.8
Continental	38,535 61†	*	
Crown	44,931 06†	*	
Imperial	134,990 96†	*	
Canada	434,547 93	255,897 05	58.9
Confederation	207,598 23	168,659 00	81.2
National	32,789 30	21,425 82	68.4
Sovereign	26,374 70	22,468 93	85.2
Federal	97,016 11	101,252 69‡	104.4
Mutual	248,543 09	147,789 32	59.5
Dominion	39,511 08†	*	
Northern	37,448 81†	*	
Great West	175,390 25	128,898 00	73.5
Sun	772,445 60	689,473 31	88.9
Royal Victoria	24,981 38	19,606 98	78.5
Home	40,021 42†	*	
	2,617,241 77	1,994,352 16	76.2

* No separation in the returns.
† Not included in totals.
a Large amounts in 'other expenses,' not so specified as to enable separation.
‡ Includes travelling expenses.

In their returns to the Commission the companies were also required to include medical examiners' fees and cost of inspection as part of the cost of new business. They were requested, also, to include any other item which they deemed part of such cost. This was variously interpreted, some adding nothing and others including even a part of home office salaries and expenses. Doubtless some rents of branch offices, salaries of supervisors, some advertising and much of the cost of literature and printing would be saved if there were no new business. It is, however, difficult to apportion these charges between old and new business, and in any event they are not so controllable as to rise and fall with the volume of new business. It is pertinent, therefore, to consider what is the direct cost of new business. It is thought that the following answer this description, voz.: commissions on new premiums; other compensation paid for obtaining new business; advances to agents; medical examination and inspection fees.

Taking these elements as making up the direct cost of new business, we have in 1905, $2,187,031.03 against new premiums of $2,631,463.36, or 83.1 per cent.

TABLE XII.

PERCENTAGE of Direct Cost of New Business to Premiums on New Business, 1905.

Companies.	Premiums on New Business.		Direct Cost of New Business.		Percentage.
	$	cts.	$	cts.	
North American	228,337	88	171,521	04	75.1
Manufacturers	300,764	98	289,524	81	96.2
London	32,610	67*	64,016	00‡	....
Excelsior	68,452	32*a*	71,784	71*a*	....
Continental	38,535	61*	49,527	82*	....
Crown	44,931	06*	57,473	14*	....
Imperial	134,990	96†	181,975	00†	....
Canada	434,547	93	282,270	14	65.0
Confederation	207,598	23	182,331	00	87.8
National	32,789	30	38,894	62	118.6
Sovereign	26,374	70	24,351	43	92.3
Federal	97,016	11	109,287	69	112.6
Mutual	248,543	09	169,951	26	68.3
Dominion	39,511	08*	36,592	79*	....
Northern	37,448	81*	36,333	00*	....
Great West	175,390	25	148,565	00	84.7
Sun	855,119	51	748,032	36	87.4
Royal Victoria	24,981	38	22,301	68	89.2
Home	40,021	42*	63,992	00*	....
	2,631,463	36	2,187,031	03	83.1

* No separation in returns. Omitted from totals.
† Arbitrarily determined. Omitted from totals.
a Large amount in 'other expenses' not separated. Omitted from totals.
‡ Includes 'industrial,' while premiums do not.

To this statement of facts it should be added that the cost of new business is now so great that for several years after a new policy is written, its surrender or lapse causes a loss to the company instead of a gain. This is illustrated by Table XIII. The column headed H $^{(m)}$ contains the reserves required to be set apart during the first five years by the present Canadian standard and the other two reserve columns, the reserves according to the minimum standards proposed by the Life Managers' Association and by the Actuary of the Commission, respectively, which will later be fully explained.

TABLE XIII.

SHOWING actual accumulations in certain companies upon whole life policies, after paying actual death claims and expenses, compared with reserves required on different bases.

AGE 35.

End of year.	Accumulations.					Reserves.		
	Canada.	Sun.	Manufacturers.	Imperial.	Confederation.	H $^{(m)}$.	Life Managers'	O $^{(m)}$ Select and Ultimate.
1	—12.46	—4.53	—11.72	—2.89	2.00	12.52	0.00	1.91
2	9.06	13.40	7.43	19.18	21.65	25.88	16.06	17.63
3	30.07	35.51	23.84	41.79	42.12	39.18	32.49	33.11
4	51.61	55.97	43.45	....	....	52.77	49.34	47.14
5	73.97	Over H (m)	63.51	....	....	66.68	66.68	63.87

In this table actual figures are given with respect to five of the principal companies, during the first five years after a policy is written. It will be seen that only in the case of one company is there enough of the net premium left after paying initial cost of insurance to put aside anything for the reserve required by law, $12.82, and in that case only $2. In all the other cases there is an actual net deficit varying from $2.89 to $12.46. At the end of the second year the reserve required by law is $25.86; but, even if the policy persists and the second premium is paid, the reserve is not overtaken in the case of any company. If the policy still persists and the third premium is paid two of the companies are able to overtake it. If the fourth premium is paid another company then overtakes the reserve, but the other two companies require persistence respectively for five and six years before the reserve is reached.

The variations in table XIII. are, no doubt, due in part to differences in actual experience, but they are also largely due to differences of opinion as to what should be treated as cost of new business.

It is manifest, therefore, that if a policy lapses before its premiums have recouped the initial expenditure it has been carried at a loss to the company, that is, to the policyholders as a body.

A very large percentage of the policies issued under the present high compensation system are either not taken, in which case, of course, the expense of medical examinations and inspection and of the home office in issuing the policy represents the loss, or, if taken, lapse at the end of the first policy year. This was brought out clearly in the evidence and also in various exhibits furnished to the Commission.

TABLE XIV.

SHOWING approximately the ratio of not taken insurance and of insurance lapsed at the end of its first year to new insurance written.

Name of Company.	Issued 1904.	Not taken, 1904.	Per Cent.	Lapsed, end of 1st year, 1905.	Per Cent.
	$	$		$	
Manufacturers	7,116,136	1,249,740	17	715,557	10
North American	6,337,733	843,046	13	1,096,250	17
Canada	13,043,503	1,846,491	14	1,760,264	13
Northern	1,230,290	28,000	2	436,600†	35
Royal Victoria	817,250	51,500*	6	316,000*	39
National	1,474,594	110,145	7	385,000	27
Confederation	5,017,988	429,257	8	514,775	10
Federal	3,010,499	135,934	4	588,347	19
Great West	5,365,295	1,273,050	24	1,182,800	22
Imperial	4,157,000	649,504	15	941,100	23
Sun	20,907,949	4,617,680	22	3,829,903	18
Mutual	5,040,627	187,540	4	818,350	16
	73,518,864	11,421,887	15	12,584,946	17

Taken from Departmental returns, except 'lapsed,' which is from Company's returns to Commission.
* These are given as accurate; 'not taken' and 'lapsed' of 1904, new business.
† Largely industrial.

It is now proposed, having cleared the ground, and keeping in view the considerations which have been mentioned, to return to the main inquiry, viz., from what source the difference between initial loading and legitimate initial cost should be borrowed until recouped out of the provision for that purpose made in the level renewal loadings.

One suggestion is that the savings upon renewal loadings should be resorted to by adopting the broad rule of limiting total expenditure to total loadings.

There are several reasons why this method does not recommend itself to the Commission.

It is based upon a mistaken idea of the nature and purpose of the loadings. They are intended not only to provide for expenditure or cost, but also to cover contingencies and a provision for profits. To the extent to which they have been provided for these purposes, it is fallacious to treat them as available for the borrowing which is the subject of inquiry.

Besides, the adoption of this rough and ready rule is by no means certain to mitigate the excessive relative cost of new business actually secured. The rule may spend itself in a mere reduction of volume in the new business.

This would tend greatly to the disadvantage of the newer as compared with the older companies. It is quite within the bounds of probability that the older and larger companies, with their large volume of old business, would be able to bring themselves within the limits of the rule without any substantial curtailment of the initial extravagance for which a remedy is sought while the newer companies, without any large volume of old business bringing in renewal premiums with their loadings, would find themselves unduly and unfairly crippled in the legitimate pursuit of new business.

Again, the rule would work to the disadvantage of companies whose premium rates are low.

Two other methods of solving the question were before the Commission. One was recommended by the actuary, and, in connection with another mortality table, was adopted by the New York Committee, and the other was suggested by the Life Managers' Association. Both methods are based upon the fact that the $H^{(m)}$ table of mortality, upon the basis of which Canadian reserves are now computed, requires larger reserves to be set apart during the earlier years of a policy than are needed according to actual mortality experience. Both methods accordingly suggest that advantage should be taken of this circumstance and that the borrowing to implement initial loading should take the form of appropriating, during the policy's early years, the difference between the reserve which the $H^{(m)}$ table requires and the reserve which accords with actual experience.

The actuary of the Commission, Mr. Dawson, who is entitled to be called the author of the method adopted in New York has recommended taking the British table to which reference has already been made, the $O^{(m)}$ table, in what is known as its select form, treating the reserve so as to take the benefit of selection during the first ten years of the policy, and subsequently treating the reserve upon the basis of ultimate mortality. This is called the Select and Ultimate Method.

The method suggested by the Life Managers' Association is applicable only to cases where the net premium equals or exceeds the ordinary whole life net premium. A deduction is made from the initial net premium equal to the difference between the standard reserves for five years and reserves calculated upon the basis of one year's term insurance followed by four years during which the deduction is made good.

Both methods are really founded upon the theory that the new business is itself the direct cause of the favourable mortality, and that the necessary borrowing may well be made from the gain so resulting.

By Mr. Dawson's method applied to the $O^{(m)}$ Select Table, ten years, instead of five, are allowed to reach the standard reserve, the $O^{(m)}$ table taking account for ten years of the mortality gains. After ten years the reserves are somewhat larger than by the $H^{(m)}$ table.

A glance at Table XIII, will show, in the cases of the companies with which it deals, how reserves provided by these two methods compare with the standard $H^{(m)}$ reserves during the first five years, and with the funds which, having regard to the initial cost, those companies have on hand during the same years for reserve purposes.

To the initial loading, under both methods, is really added an amount representing the mortality gains due to the new business, and the proposal is to limit the cost of obtaining the new business to their sum.

The following tables, XV. and XVI. show how the direct cost of new business for 1905 would have compared with a provision for such cost arrived at by the two methods.

TABLE XV.

Comparison of Direct Cost of New Business in 1905 to Provision by Life Managers' method, plus Loading.

Companies.	Provision plus Loading.		Direct Cost.		Ratio.
	$	cts.	$	cts.	
North American	113,794	07	171,521	04	1.51
Manufacturers	162,269	63	289,524	81	1.79
London	35,102	17*	64,016	00*	1.82
Excelsior	51,762	48*	71,784	71*	1.38
Continental	24,926	46*	49,527	82*	1.99
Crown	25,358	80*	57,473	14*	2.27
Imperial	83,361	23*	181,975	00*	2.17
Canada	239,073	10	282,270	14	1.18
Confederation	144,568	79	182,331	00	1.26
National	20,789	01	38,894	62	1.87
Sovereign	15,330	90	24,351	43	1.59
Federal	61,593	03	109,287	69	1.77
Mutual	114,203	58	169,951	26	1.49
Dominion	23,551	48*	36,592	79*	1.55
Northern	26,968	29*	36,333	00*	1.35
Great West	107,341	70	148,565	00	1.38
Sun	458,037	87	748,032	36	1.63
Royal Victoria	19,399	59	22,301	68	1.15
Home	27,427	10*	63,992	00*	2.33
	1,456,401	27	2,187,031	03	1.51

* Omitted from totals. See Table XII for reasons.

TABLE XVI.

Compensation of direct cost of new business to provision by O (m) select and ultimate method, plus Loading.

Companies.	Provision, plus Loading.		Cost.		Ratio.
	$	cts.	$	cts.	
North American	126,791	39	171,521	04	1.35
Manufacturers	180,859	75	289,524	81	1.60
London	38,185	25*	64,016	00*	1.68
Excelsior	58,194	44*	71,784	71*	1.23
Continental	28,085	35*	49,527	82*	1.76
Crown	28,497	72*	57,473	14*	2.02
Imperial	93,192	51*	181,975	00*	1.95
Canada	269,799	63	282,270	00	1.05
Confederation	158,090	47	182,331	14	1.15
National	25,851	31	38,894	62	1.50
Sovereign	17,269	22	24,551	43	1.41
Federal	70,076	27	109,287	69	1.56
Mutual	129,637	74	169,951	26	1.31
Dominion	26,486	43*	36,592	79*	1.38
Northern	30,373	68*	36,333	00*	1.20
Great West	119,636	50	148,565	00	1.24
Sun	507,321	19	748,032	36	1.47
Royal Victoria	21,976	47	22,301	68	1.01
Home	31,072	08*	63,992	00*	2.06
	1,627,309	94	2,187,031	03	1.34

* Omitted from totals. See Table XII for reasons.

The progress of the Reserve during five years towards the Hm standard under both methods is shown in the following table.

TABLE XVII.

MEAN RESERVES BY STANDARDS NAMED, ORDINARY LIFE POLICY, 3½ PER CENT.

	Age—25.				
	1st.	2nd.	3rd.	4th.	5th.
Present Standard	12.19	21.53	31.12	40.88	50.80
Canadian Life Managers'	3.20	14.65	26.44	38.49	50.80
O (m) Select and Ultimate	1.38	13.02	23.88	34.64	45.44
	Age—35.				
	1st.	2nd.	3rd.	4th.	5th.
Present Standard	16.79	29.73	42.91	56.36	70.11
Canadian Life Managers'	4.24	20.12	36.36	53.02	70.11
O (m) Select and Ultimate	3.68	20.03	35.57	50.96	66.39
	Age—45.				
	1st.	2nd.	3rd.	4th.	5th.
Present Standard	24.30	43.41	62.62	82.06	101.77
Canadian Life Managers'	5.89	29.22	52.94	77.10	101.77
O (m) Select and Ultimate	5.52	28.77	51.16	73.24	95.19

The following table exhibits in comparison the provisions made for initial cost by the two methods and compares both with present loading provision.

TABLE XVIII.

INITIAL MARGINS ON WHOLE LIFE PREMIUMS BY EACH METHOD.

(*a*) Being the margins set free by the Methods of Valuation.

	Age 25.	Age 35.	Age 45.
Present Standard	0.00	0.00	0.00
Life Managers'	8.80	12.28	18.07
O (m) Select and Ultimate	12.29	14.95	21.39

(*b*) Total Provision for initial cost, inclusive of Loading on Net Premium.

	Age 25.		Age 35.		Age 45.	
	Provision.	Per Cent of Prem.	Provision.	Per Cent of Prem.	Provision.	Per Cent of Prem.
Present Standard	6.09	29%	7.19	26%	9.00	23%
Life Managers	14.89	70%	19.47	70%	27.07	70%
O (m) Select and Ultimate	18.38	87%	22.14	80%	30.39	79%

Upon limited payment Life and Endowment Policies, the provisions are larger, but the percentage of premiums is smaller.

Your Commissioners are of opinion that the method suggested by the Life Managers' Association should be recommended. It perhaps lacks, theoretically, the scientific accuracy of the Select and Ultimate Method, but its results do not very widely differ. It possesses the merit of requiring the early restoration of an unimpaired standard reserve, and fixes a somewhat higher standard of economy. But your Commissioners would have thought it wise, even if it had not seemed to them to possess these advantages, to fix, if possible, upon a method suggested by the special experience and skill of the gentlemen upon whom will rest the duty of administering it.

The fact that the method recommended confines itself to cases where the premium is equal to or greater than the whole life premium has not escaped notice. The result will, no doubt, be that the early reserves for whole life policies will be less than the reserves for long term policies, for twenty years and upwards. This is anomalous, but having regard to the infrequency of term policies with such long periods, it is believed that they may be disregarded altogether for the present purpose.

Two methods of assuring economy within the proposed limits, are suggested.

One is to rely on publicity, by requiring each company to report annually how much the loading upon new premiums, plus the proposed provisions, amounts to, and, in detail, what the direct cost of new business has been during the year.

The other is to put a limit by statute upon the aggregate cost of new business, confining it to the proposed provision, plus the loadings.

Your Commissioners are of the opinion that both methods should be adopted, the former to afford means of ascertaining that the latter has been complied with, and the latter because even the publicity of this inquiry has not induced an abatement of extravagance.

V.—Investments.

Your commissioners believe it not only expedient, but necessary, to place all life insurance companies upon a uniform and common basis with regard to powers of investment. It is in the highest degree inconvenient that different restrictions upon such powers should exist in the bases of different companies under the same legislative jurisdiction. No sufficient reason has been suggested to the Commission in the course of the inqury for continuing the differences in such powers arising out of special Acts of incorporation. All companies ought to have precisely the same powers, and the powers of all ought to be prescribed in a general Act relating to all.

Under a former head the Commission has stated very fully its conviction that all accumulated funds belonging to policyholders are essentially trust funds. It necessarily results that permissible investments should be confined within such boundaries as may be appropriately delimited for the investment of that class of funds. Speculative investments ought to be excluded, and the trustee directors charged with the

duty of investment should never be permitted to embarrass themselves by considerations arising out of any personal relation on their part to the subject matter of investment. In the course of this inquiry the dual capacity of trustees has been frequently illustrated, and many of the illustrations strongly emphasize the danger which is inseparable from the dual position.

The powers which are at present conferred by the General Insurance Act are, in the opinion of the Commission, sufficiently comprehensive to cover every species of investment which should be permitted.

The propriety of continuing to permit investment in ordinary unsecured stocks may properly be questioned. Section 50 (*b*) makes

'the debentures, bonds, stocks or other securities'

of certain companies, including

> 'waterworks company, water-power company, gas company, navigation company, street railway company (by whatever power the railway is operated), electric light or power company, heat and light company, rolling stock company, bridge construction company, harbour trust company or commission, telegraph, cable or telephone company, dock company, fire insurance company,'

permissible investments, though the same section forbids investment in the debentures or bonds of any steam railway company unless its stock has paid dividends for two years. The investments which have come before the Commission have convinced your Commissioners that it is exceedingly desirable that the word 'stocks' should be stricken out of this subsection. Many 'public utility' stocks, or industrial stocks, in modern financial practice, represent no investment of money whatever. The money put into these enterprises is often represented by the bonds only. The stocks are quite unsecured, and not only ordinary creditors, but all bondholders must be paid before holders of stock receive anything. Such stocks are inappropriate as an investment of trust funds. Your Commissioners, therefore, recommend dropping them from the category of investments.

The 4th subsection of the same section should, your Commissioners think, be amended also, so as to drop from the list of permissible investments in the United States the preferred or guaranteed stocks of the same classes of company in the United States.

Another class of security which the Commission deems undesirable is that which arises out of foreign operations by a Canadian company. The latter part of the same subsection gives a description of the investments covered by it by reference to the place of incorporation and not by reference to the *situs* of the property. Thus the Sao Paulo and Mexican securities in which some of the companies have invested are sought to be justified because, though all the operations and property of these companies are in foreign countries, the companies themselves had their birth in this country. Your Commissioners cannot but think that, to all intents and purposes, these are foreign securities, and recommend that this anomaly be remedied by a suitable amendment of the section.

Your Commissioners would have been pleased if they could have seen their way to the framing of an effective provision defining for the future, for all companies, the limits to which they may go in the holding of real estate for alleged head office purposes. The erection of expensive buildings under the guise of head offices, with the real purpose of becoming landlord of extensive office premises, is a thing susceptible of much abuse and conducive to extravagance. Nearly all the instances presented to the Commission have demonstrated the imprudence of permitting funds to be so applied. It does not seem practicable, however, to legislate effectively in that respect.

In respect even of the permissible range of investments, many abuses have, in the opinion of your Commissioners, prevailed. Your Commissioners cannot believe that it was ever the intention of Parliament that, under the pretext of investing in the

securities of 'public utility' corporations, insurance companies should promote such companies and construct and operate their works. Nor can your Commissioners believe that Parliament intended to sanction the acquisition by an insurance company of the whole of or a controlling interest in the capital stock of a trust company, with the intent of managing and operating it as a subsidiary or tributary concern. These enterprises seem entirely foreign to the very idea of investment. The insurance company is authorized to invest only, and not to engage in other businesses than the business of insurance. The possibility of diverting insurance funds from the authorized channels of investment by these means could never have been in the mind of Parliament when the Act was passed. It may not be easy to draw the legislative line, but it seems to your Commissioners that, perhaps, the department may be entrusted with the construction of the Act, and empowered to determine in all cases whether, under colour of the statutory power of investing, the insurance companies are embarking upon or engaging in other businesses than the business of insurance.

VI.—Valuation of Policy Liabilities.

In addition to presently matured liabilities account must be taken of the unmatured obligations arising under policy contracts. These are conditioned upon continued payment of premiums. The ascertainment of the present value of these unmatured obligations is necessary to complete a proper balance sheet.

It is plain that for this purpose two valuations must be made, viz.:—

1. A valuation of the obligations themselves.
2. A valuation of the premiums receivable in respect of them.

The difference between them is the net reserve.

In the valuation schedules required in Great Britain separate valuations of policy-obligations and of future premiums are required, though the difference or net reserve only is entered in the balance sheet. In this country the practice has been to show the net reserve only.

In making these valuations it is necessary to assume a rate of interest at which funds will be accumulated, and also a rate of mortality.

Care should be taken to assume a rate of interest which is reasonably certain to be realized through a long period of time and upon investments of a safe and permanent character.

Your Commissioners are of opinion that 3½ per cent is not too low a rate, when subjected to this test; and voluntary adjustment to even a lower rate is not necessarily over-cautious.

In Great Britain, no rate is fixed by law; but the companies value at from 2½ to 3½ per cent.

In most other European countries 3 to 3½ per cent is the maximum rate.

In Australia 3½ per cent is the rate used by the principal companies.

In New Zealand the Government Insurance Department, furnishing state insurance, uses 3½ per cent and, under expert advice, is proposing a reduction to 3¼ per cent.

In the United States many companies value at 3 per cent for all policies issued after 1900; many others at 3½ per cent. In New York, Massachusetts and Pennsylvania, 3½ per cent is the maximum and 3 per cent the minimum legal rate for these later policies. Policies issued before 1900 are still valued at 4 per cent, which is also the legal maximum rate in several states.

Here the rate is 4½ per cent in respect of policies issued before 1900, and 3½ per cent in respect of policies issued since that year, the values of the former to be brought to a 4 per cent basis by 1910 and to a 3½ per cent basis by 1915. There is no prohibition against the voluntary adoption of a lower basis, and several companies now value at 3 per cent, two having brought the values of their entire outstanding policy

obligations up to that standard. The ability to do this voluntarily indicates strength, while a compulsory reduction in rate might imperil solvency.

The maximum rate, 3½ per cent, fixed by the present law does not appear to the Commission to be either too high or too low; and, in this regard, the present law does not require amendment.

While your Commissioners approve of the maximum rate now fixed, they deem it proper to call attention to the statutory provision which enables that rate to be reached gradually. It is believed that the reason for making the process of raising the reserve standard gradual was not only to prevent a sudden and dangerous disturbance of the finances of the companies from the standpoint of their solvency, but also to prevent disturbance of the interests of policyholders. It is manifest that a sudden transfer of funds from surplus to reserve must interrupt continuity of distribution, and that those policyholders whose contracts mature before the breach has been repaired are not upon an equal footing with the others. Your Commissioners do not, therefore, approve of the drastic course taken by the Canada Life. Its policyholders had a right to expect that the changes prescribed by law would be made in such a way as to cause the least possible affection of their interests and at a minimum of inequality.

Nor do your Commissioners think that companies should be permitted voluntarily to strengthen their reserves beyond the 3 per cent rate. Should a general decline in the rate of interest render such a measure necessary, the cause will affect all companies alike, and general legislation should be had.

With regard to the table of mortality to be employed in the valuation, your Commissioners see no sufficient reason for recommending any change. The H^m table, whose origin has already been explained in that part of the report which treats of expenses, has recently been demonstrated to provide a reasonable margin of safety. The more modern O^m table takes account of the more favourable mortality which is found to exist in the earlier years of a policy, and covers a larger experience than that upon which the H^m table is based.

On the other hand, existing Canadian policies have been valued by the older table, and valuations so made ought not, in the opinion of your Commissioners, to be disturbed, so long as they provide adequate reserves.

Additional reserves, to bring the company's total reserves up to the standard voluntarily adopted by it (which must not, however, be higher than net reserves for all policies on a 3 per cent interest basis) should be returned separately.

Suitable provision should be made enabling companies to set apart additional reserves in respect of tropical and sub-tropical business and impaired life business, in all of which higher rates of mortality prevail than those found by the Hm table.

Annuities should be valued upon the basis of the British Office Life Annuity Table of 1893.

VII.—Lapse and Surrender Values.

Most Canadian companies now make some provision by which policyholders in case of lapsing are entitled to a continuation of the insurance for a period which is fixed by relation to the policy's reserve. This provision is usually spoken of under the name 'non-forfeiture.' Some companies, however, require action by way of application or notice on the part of the policyholder to bring the provision into operation. Others make the provision work automatically. Your Commissioners are of opinion that all insurance hereafter written should contain the provision, and that the benefit of it should not depend upon action by the policyholders.

Every policy should set out upon its face in tabulated form what the company will do by way of loan value, cash surrender value, paid-up insurance value or continued insurance value, in both forms hereinafter referred to, after any number of premium payments, and the lapsing policyholder should be entitled to elect between the cash surrender, the paid-up insurance and the continuance of insurance in either of the methods about to be described, shown by the table. The policyholder should

make his election within a time to be fixed and, in default of election, should have the benefit of the continued insurance provision in the table, in that form of it which is recommended.

Two forms of automatic continuance of the insurance have been brought to the attention of the Commission. One provides for continuance as non-participating paid-up insurance for a given term, without the privilege of resuming payment of premiums save on proof of good health. The other provides for continuing the original insurance, with all its rights, including participation and the right to resume payment of premiums. Both forms provide for advancing premiums so long as the conventional value will permit. The latter form is more general in Canada, and your Commissioners recommend it for adoption, as the provision which is to be operative if no option is exercised by the policyholder.

Tables similar to those incorporated in the standard policies prescribed by the recent New York legislation, with the modifications necessary to carry out these recommendations, are recommended.

VIII.—Standardization of Policies.

The Commission has been impressed by the confusion arising out of the multiplicity of policy forms in use and by the sometimes misleading titles and contents of many of them. A return to methods more simple, intelligible and conducive to clear comparison seems to the Commission desirable. It is believed that, apart from industrial insurance, the ordinary whole life policy, the limited payment life policy, the endowment policy, and the term policy may be made to embrace all the classes of insurance necessary to a healthy system. All policies should be made incontestable, save for discontinuance of payment of premiums, after a reasonable period of time, the expiration of which should also conclude the company with regard to the age of the assured. The table of values mentioned above should be incorporated into the different policies by a suitable policy provision, and there should, in all participating policies, be an appropriate obligation to make good the policy's share of profits in cash or bonus addition at the option of the insured. Your Commissioners would advise excluding from all policies issued by foreign companies to persons residing in Canada any provision intended to deprive the insured of his resort to the Canadian courts to enforce his policy rights.

There should be an opportunity given to companies to obtain the standardization of other forms of policy than the five which are now recommended, upon establishing the expediency of such standardization. The Insurance Branch may be authorized to standardize such other forms upon proof of expediency, but without departure from any of the principles upon which the standardization now recommended is based.

IX.—Distribution of Surplus.

Your Commissioners have given this subject much anxious consideration. The insurance managers are earnestly opposed to any amendment of the law looking towards curtailing the volume of deferred dividend business, and they appear to view the suggestion of a compulsory distribution at more frequent intervals than quinquennially as revolutionary and destructive. On the other hand these surplus funds are, as already pointed out, trust funds and belong to the policy-holders. Annual distribution is the ordinary rule of commerce, and the retention of earned surplus has, as shown heretofore, a direct relation to the principal abuses to which attention has been called. In New York annual distribution is now required in respect of all new contracts of insurance. In Massachusetts not only is annual distribution for the future made an essential feature of the report of the State Commission, but in respect of outstanding policies an annual, binding interim apportionment is insisted upon. The Chicago Conference of Governors, Attorneys General and Insurance Commissioners pronounced in favour of an annual distribution.

The Commission appointed by the Governor of Indiana reported that the surpl should be paid out annually. So did the Joint Committee of the Senate and A sembly of the State of Wisconsin.

The treatment of policy-holders entitled to the benefits of deferred dividen has been shown to the Commission to be capricious, unfair and unequal in ma cases. The freedom from liability to account at stated periods has created a co fusion of ideas as to the ownership and purpose of accumulations upon deferr dividend policies. There has been manifest a tendency to divert these accumul tions from their original purposes and to apply them to alien purposes. They ha been utilized in maintaining the fierce struggle for new business or as funds pr videntially in hand for purposes of speculation.

Your Commissioners recommend the prohibition of insurance contracts whi provide for distribution otherwise than annually. With regard to outstanding co tracts which so provide, there should be prescribed an annual, definitive ascertai ment and allocation of profits, and each policyholder should be advised yearly exac what has been carried to the credit of his policy.

With regard to all the business issued after the law becomes operative, which w thus be upon the basis of an annual payment out of surplus, all surplus earnings f the year attributable to it should be annually distributed in cash or bonus additio save such sums by way of contingent or safety fund as may be necessary to preve embarrassment and undue fluctuation.

Your Commissioners desire to point out that annual distribution is the fairest a most advantageous plan for the average policyholder. It cheapens his insurance a furnishes him with the only true index of what it costs him. It puts him upon t same commercial footing that mercantile practice puts him upon in other busine relations. It simplifies the accounting with him by the insurance company and brin his real insurance asset before his eyes in a clear and distinct shape.

The remedy recommended should be reinforced by appropriate requirements the returns made to the Insurance Branch, so that the methods followed in ascertai ing, apportioning and distributing surplus may be subjected to criticism.

There should, besides, be legislation enabling the Attorney General for Cana to maintain actions in respect of the accounting made by the companies, in the i terest and for the benefit of the policyholders entitled, so that there may be not on departmental criticism, but also judicial determination of the propriety of the metho of apportionment and distribution adopted.

X.—Returns and Publicity.

There is a general agreement that there should be a marked advance in the degr of publicity to which insurance business is exposed. And it is conceded by the com panies themselves that a larger measure of public information with regard to the affairs than now exists would tend towards more efficient and honest management a greater economy, and would stimulate that healthy competition which is one of t prime safeguards of the insuring public.

The majority memorial from the Life Managers' Association submits, in th view, a form of annual return to the Department of Finance which includes the mo minute details of the business carried on.

On the other hand, the minority memorial, which is exclusively signed on beha of British companies doing Canadian business, advocates a complete change in t methods and substance of the returns, asking that they be placed upon such a foo ing as to disclose a true revenue account and a true balance sheet, prepared upon t principles governing the returns of British companies to the Board of Trade und the Imperial Act of 1870. This, it is said, will enable a company's true position, n only with regard to its invested assets, but also with regard to its policy obligation to be ascertained by accountants and actuaries with scientific precision.

This report, in another part, points out the fundamental difference between the function of the Board of Trade return and the return required by the Canadian law. The former is not followed by, and is therefore not framed to facilitate, actual examination of and inquiry into the workings of insurance companies, and their results to policyholders. It is rather framed for the purpose of enabling skilled actuaries to make scientific deductions from the return itself, without having any access to its book-keeping and actuarial bases.

The Canadian return, on the other hand, is intended to perform a fundamentally different function. It is to be followed up by independent expert examination of the sources from which it is compiled, and is therefore framed to serve the purpose of facilitating such examination, rather than the purpose of enabling expert conclusions to be reached without it.

Your Commissioners are advised that the form of return at present prescribed lends itself to the facilitation of the subsequent examination in a higher degree and in a more practical way than the Board of Trade return.

The Canadian law requires a public official valuation of the policies in force at stated intervals. This requirement seems to your Commissioners to make it of less importance that the return should in itself provide all the factors for such a valuation, than that it should make the examination of the financial standing of the different companies in respect of their investments, expenses and profits capable of being made more simply, easily and expeditiously.

Your Commissioners are of opinion, however, that it would be wise to amend the law so that the prescribing of any precise form may not hamper the officers of the Insurance Branch when, for any reason, the form falls short of furnishing the full information desired. The form should itself be elastic, and the provisions regulating its use still more elastic, enabling those charged with the duty of acquiring information to supplement authoritatively the prescribed form in any case where it does not elicit all necessary and desirable information. Elasticity in practice is more to be desired than an impossible accuracy in foresight and a prescription along unyielding formal lines.

Nor is it unreasonable that more interim information than is now given upon the important subject of valuation should be furnished in the returns. Your Commissioners are of the opinion that the valuation made by the officers of the Insurance Branch should be made at least every three years, instead of at least every five years, as the statute now provides. The returns should include such information as will enable the officers, in the intervals between such authoritative valuations, to detect any departure from the principle upon which the valuation is made, and any failure to maintain reserves in accordance with it. Provision for this is made in the amended form of return recommended by your Commissioners.

Your Commissioners are not favourably impressed by the multiplicity of detail in the return suggested by the majority memorial of the Life Managers' Association. This greatly adds to the volume of the return, and seems to be unnecessary if the powers of the officers of the Insurance Branch are so widened as to enable them to insist upon details to any necessary extent in particular cases. Certain additional details in respect of some items are suggested in the amended form of return accompanying this report, for reasons which the amended form itself sufficiently indicates. Beyond these additional details your Commissioners see no reason for increasing the volume of the return by minute subdivision and classification.

The most important among the additional details suggested, omitting additions called for by new and substantive recommendations affecting principle, is the more minute classification of premium income. Items 1 to 5 in Part IV. of the return, headed 'Income during the Year' have been recast and subdivided so as to furnish more detailed information.

It is considered desirable that the return should furnish such information as will enable the officers of the branch to maintain an effective check upon the expendi-

ture for new business, so that it may be readily ascertained whether the companies have kept within the margin permitted by the amendment recommended under the heading 'Expenses' in this report. This also is expected to be accomplished by the alterations recommended, which require the first year loadings to be ascertained and returned. The greater amplification of the general items of expense which will be found in the amended form will greatly facilitate this verification.

Perhaps the most important alteration in form which is recommended is that which is made necessary by the yearly declaration and payment of profits in respect of new business, and the yearly ascertainment and allotment of profits in respect of existing business.

It is desirable that the principles which have governed the management in the ascertainment and distribution in both classes of business should be clearly disclosed, and that the amounts so ascertained, where not actually paid, should be carried among the liabilities in a separate item, capable of being readily traced in subsequent years. This, it is believed, will be amply provided for by the amended form recommended. The calling for illustrations of dividends declared and for information with regard to the methods of computation employed, your Commissioners believe will serve a most useful purpose.

The methods of some of the companies examined have made it important that the annual examination should strictly follow all the movements of securities during the year. Your Commissioners have provided for this by another and separate return accompanying this report, which it is recommended should be required quarterly, under the same penal sanctions as pertain to the main return. It is not believed that any irregularity in the making og investments can successfully be concealed if this quarterly return is made compulsory.

XI.—The Insurance Department, its Powers and Duties.

The minister within whose department the subject of insurance falls is the Minister of Finance and Receiver General, and the Insurance Branch of his department is his insurance executive. The statute provides for the appointment of a chief officer of the branch, with the title 'Superintendent of Insurance,' and his position and duties are elaborately defined. The appointment from time to time of officers and clerks under him is provided for.

The duties which he is required to discharge are to some extent of a routine and clerical character. He is to keep a record of the documents which companies are required to file in the Superior Courts of the different provinces for the purpose of giving those courts jurisdiction over the subject matter of their contracts of insurance. He is to keep entered in the books of the branch the securities which the companies are required to deposit with the minister, their par value and the value at which they have been received on deposit. He is to keep a record of the licenses issued. He is to ascertain and levy upon the companies a rate to provide for the expenses of his office.

But his duties are not all of this character. He is required to report to the minister before the issue and renewal of all licenses whether the companies have complied with the requirements of the law and whether they appear, from the statements of their affairs furnished, to be in a condition to meet their liabilities. He is to visit the head office of each company in Canada at least once each year to examine, check and verify the elaborate returns made to the department by each company, and to report the results for the information of the minister, specially calling to his notice all matters requiring his attention and decision, showing full particulars of the business of each company, and he is besides, to classify the various branches of insurance, collecting and tabulating items, so that his report may be in the most useful form for presentation to Parliament, which is its ultimate destination.

He is clothed besides with substantive powers of examination into the condition and affairs of insurance companies, in addition to those given him in connection with the yearly visit made to check and verify the returns. If, and whenever, as a result

of his regular examination, or from any other cause, he deems it necessary to make a more complete and thorough investigation, and so reports to the minister, the latter may instruct him accordingly, whereupon the books of the company under suspicion are opened to him, the officers of the company are bound to facilitate his inquiry to the utmost, and he is given power to examine them upon oath. The result of this inquiry also is to be the subject of report by him, and he is required to form and state his opinion as to the standing and financial position of the company examined and all other matters desirable to be made known to the minister.

In the pursuit of his important powers of inquiry he may be sent by the minister to the office of a foreign company doing business under Canadian license, and there may demand the fullest disclosure, under penalty of withdrawal of that license.

When the superintendent, as a result of the examinations made by him, thinks the assets of any company insufficient, according to the statutory requirements, to justify its continuance of business, or that it is unsafe for the public to effect insurance with it, he must report specially to the minister, and his report may be followed, if concurred in by the minister, by government cancellation or suspension of license.

Perhaps there is no function with which he is charged more important than the valuation of policies. This he must now do at least once in five years in the case of all policies of Canadian companies and all Canadian policies of British and foreign companies. By this means he is expected to make an authoritative adjudication upon the solvency of Canadian companies and the solvency by reference to Canadian assets of all other companies in respect of their Canadian obligations. On the one hand, his proper performance of this duty may be followed by consequences of the most serious character to the insurance companies, and, on the other hand, its negligent or perfunctory performance may be disastrous to the insuring public.

In this, as in other matters to which reference has been made, the superintendent, therefore, stands between the public and the companies in a more intimate and relevant fashion than the minister himself, whose hand and conscience he is. The present superintendent, Mr. Fitzgerald, has occupied the position since 1885. The work of examination and inquiry into the affairs of insurance companies by him and his staff has been conducted in some respects rather as a check than as an audit. Viewing it from this standpoint, it has frequently been effective, though many improprieties have remained undiscovered. Irregularities typical in their nature, such as unauthorized investments, irregular loans, the writing up and down of securities and the making of fictitious entries at the end of the year for the purpose of suppressing transactions in the returns, have not escaped notice and criticism, and have, when discovered, been efficiently dealt with.

In dealing with those irregularities in investment and other financial improprieties which have been discovered in the course of his examinations, the superintendent has frequently acted with firmness, and pressure from him has sometimes resulted in bringing directors to the admission and rectification of these improprieties. He has not felt himself at liberty in this class of cases to recommend the drastic remedy of withdrawing, suspending or declining to renew the license, notwithstanding the provisions of section 25 (4*b*), which provides among other things that before any license is renewed he must have reported that 'the requirements of the law have been complied with,' and of section 25 (5), which authorizes him to thoroughly inspect and examine into all the company's affairs and make all such further inquiries as are necessary to ascertain.

> 'whether it has complied with all the provisions of this Act applicable to its transactions.'

He was advised by the Department of Justice in 1894 that the remedy of withdrawing, suspending, cancelling or declining to renew the license was, upon the proper interpretation of the Act, confined to cases in which the liabilities exceeded the assets, or the assets were insufficient to justify continuance of business, or it had become unsafe

for the public to effect insurance with the company, thus practically limiting it to the case of insolvency. By the opinion then given the practice of the superintendent has since been guided, and he has often been cautious in asserting himself when questions of difficulty have arisen, believing himself to be denied in this and other respects, powers which he thought it desirable he should possess.

Your Commissioners in the early stage of the departmental inquiry were apprehensive that the result of the restriction placed by the opinion of the Department of Justice upon the practical remedy of dealing with the license itself in case of company misconduct might have been to make the superintendent and his officers more or less apathetic in dealing with those improprieties as to which they believed themselves to be without effective check. It was with some satisfaction, therefore, that your Commissioners observed, as the inquiry proceeded, how these improprieties when discovered were dealt with, and the considerable success which was achieved.

It will, your Commissioners believe, be useful to so amend the Act that the effective remedy of suspension or withdrawal may be made capable of judicious application to improprieties which do not involve insolvency. The wilful or careless overstepping of investment landmarks, and other improprieties which are instanced in the reports upon individual companies, have become too general to be permitted to continue, and the liability to temporary suspension of the right to do business will, your Commissioners believe, operate as a wholesome incentive to the avoidance of these practices.

It is hoped that the substantial widening of the superintendent's powers to elicit information which is recommended, and the additional requirements of the amended returns suggested, will make the work of the branch increasingly effective.

The actuarial work of the department has, the Commission is advised and believes, been admirably done. Mr. Fitzgerald, though familiar to some extent by practice with questions of pure insurance, is not himself an actuary. The professional members of his staff, however, Mr. Blackadar and Mr. Grant, both of whom were examined before the Commission, appear to be actuaries of much skill, and with entire honesty of purpose. The Commission believes their actuarial work in the valuation of policies and otherwise has been well done.

The provisions made in various parts of the Act for dealing with licenses by way of cancelling, withdrawing, suspending or refusing to renew them might perhaps be consolidated and somewhat simplified. There are no less than three different provisions of the kind, all predicated upon the existence of a state of insolvency. They are section 10, section 25 (8) and section 25 (10). These might, it is believed, be brought together in a single plain provision. This may, however, be more conveniently dealt with by the department when the Bill is under consideration.

The Commission finds a similar multiplicity of tribunals which may deal with the license. Under section 10 it is the Minister; under section 25 (8) it is the Governor in Council, and under section 25 (10) it is the Treasury Board. This might also be similarly dealt with if deemed expedient.

Your Commissioners think it desirable that there should be given to the superintendent a somewhat wider power than he now possesses in respect of inspection of the offices of companies whose origin is British or foreign. His powers in that respect, which now depend upon section 25 (11), do not seem so complete as his powers in respect of Canadian companies, which depend upon sections 25 (4), 25 (5) and 25 (6).

In respect not only of real estate owned by companies, but also of real estate upon which mortgage loans have been made, the superintendent should have power to check the returned valuations by independent appraisement in cases where for any reason it is deemed expedient.

There should, your Commissioners think, be more power vested in the superintendent, without necessarily referring to the minister, in respect of varying or supplementing the forms prescribed for returns. In matters of detail there should be the utmost elasticity in moulding the forms to meet variations in practice in different com-

panies, differences in bookkeeping and other matters which may interfere from time to time with the applicability and usefulness of any particular form. It should not be necessary for the superintendent in dealing with this class of details to await the ruling or direction of the minister.

The work of the branch is large and growing rapidly, and the adoption of the suggestions made in this report will very considerably increase it, and your Commissioners recommend that the growth of the staff should continue to keep fully abreast with it.

Throughout this report the references to the Statute are to the Insurance Act as it stood before the revision which came into force on January 31, 1907.

XII.—Fraternal Societies.

The part taken by fraternal or benefit societies in the history of insurance is an important one. The elimination from their constitution of all questions of profit and many of the larger questions of expense has enabled them to appeal to classes which the regular insurance company could never reach, so cheapening the cost of insurance as to bring its advantages home to the humblest. They have done much to alleviate distress in the assistance they have given to the families of their members. They have collected large funds and distributed them among those whose necessities were greatest. The social element in them has made for the betterment of their members in many ways. They have grown into the life of the country and are a part of its development and progress.

It is, therefore, important to examine carefully the principles which underlie their operation, to ascertain with all possible accuracy the results which persistence in those principles may be expected to involve, and, with cautious firmness, to do whatever is possible to strengthen their position and widen their sphere of usefulness.

In the first place, the insuring of human lives is a business, and cannot be successfully carried on by selling the commodity in which it deals at less than cost. In the next place, it is unsound economics to credit part of the price which one customer pays upon the account of another customer. Upon the application of these two propositions depends the solution of the problem presented by the history of these societies. In so far as they have been selling insurance at less than its real cost, in so far as they have been depleting the provision made by one policyholder for the cost of his insurance in order to eke out the inadequate provision made by another policyholder for the cost of his insurance, they have built upon foundations of sand, and the edifice must fall. What does the evidence before the Commission establish in these two respects?

Given a reliable mortality table and a rate of interest which may be depended upon, the average cost of insuring a life and what that cost is during each year of protection are matters capable of accurate demonstration. When level premiums are fixed to represent the whole cost, it is clear that they must be so computed as to provide in the early years, when mortality is low, a surplus to make good the loss due to higher mortality in the later years. The cost of the insurance grows year by year from a point below the amount of the level premium to a point above it, and the function of the level premium is to accommodate the variation. It is clear that it is essential to the proper exercise of this function that the saving while the cost is below the premium, should not be diverted to other purposes. For example, if old members whose insurance has crossed the line, are paying at level rates which were originally inadequate to provide the compensating saving, it will not be sound business to use the saving on premiums of others to help out the cost of their insurance. Nor will such a use of it do more than postpone the inevitable end. The influx of new members can never, in practice, overtake this waste. As new members become old and their savings, already diverted, are called for to provide for the cost of their own

insurance, new members in a ratio constantly increasing, must be found in turn to sacrifice their early savings.

The rates charged by these societies were never based upon any scientific computation of the cost of insurance, and when compared with rates computed upon any known experience have always been found inadequate. The attempts to better this inadequacy by raising the rates have not been permitted to extend to old members, in the case of any society except the Ancient Order of Foresters; and the rates for new members, themselves inadequate, have been rendered doubly so by the greater inadequacy of the rates of older members.

The mortality table to which the name of the National Fraternal Congress has been given has very recently been under review at the instance of that body. The experience of forty-three friendly societies was examined, of which sixteen admitted men only to membership, four admitted women only, and the other twenty-three admitted both men and women. The numbers of persons and the exposures were as follows:—

	Members.	Exposures.
16 societies admitting men only	2,083,020	2,128,410.0
4 " " women only	358,545	348,228.0
23 " " both men and women	401,653	403,528.5
Totals	2,843,218	2,880,166.5

The work of deducing the death rate appears to have been carefully and skilfully performed, having been in the hands of Mr. Landis, whose professional experience among friendly societies makes his work of peculiar value. Four per cent was the rate employed in computing premiums therefrom.

A comparison of the net premiums deduced, with those fixed by the National Fraternal Congress tables, shows that the latter are slightly higher for all ages up to 35. At age 36 the forty-three societies rate is $17.25, while the N. F. C. rates is $17.24. From ages 37 to 50 the forty-three societies rate rises above the N. F. C. rate by small gradations from year to year, being four cents higher at 37 and $1.60 higher at 50. After 50 it rises more rapidly, reaching a difference of $5.04 at 70.

The object of this inquiry into friendly society experience was to test the reliability of the N. F. C. table and the adequacy of the rates deduced from it. The conclusion of the Committee, in its report to the National Fraternal Congress, was that

> 'the N. F. C. table of mortality is an acceptable and adequate minimum table, which will produce rates of contribution sufficient to cover the cost of death benefits as promised by the societies of this Congress, while in a normal condition.'

This conclusion recommends itself to your Commissioners. If the N. F. C. table should not be left the official table of the Congress, but should be readjusted to the variations found in the forty-three societies' experience, the result would be, upon the whole, less favourable to the older members of the societies valuing by it.

In the portion of the report dealing with individual societies, the rates charged by all but the Independent Order of Foresters and the Ancient Order of Foresters have already been compared with the N. F. C. rates. The present rates of the Ancient Order of Foresters have not been compared because that society now maintains a reserve on the statutory basis.

It must be remembered that wherever the comparison shows an increase in the rates charged by the societies that increase left members already paying the lower rates quite untouched.

The members of the Independent Order of Foresters, for example, who became members before the change in 1896, mentioned in a former part of the report, remained and still remain members upon the rates of 1881. And the same observation applies to all the other societies whose rates have been so compared.

Even if, therefore, the present schedules of rates in force were in themselves adequate, the practice in the societies still permits the depletion of the early surplus which they provide, to make good the losses occasioned by the insufficiency of the rates, which old members pay, to cover the cost of carrying their insurance.

This seems to be a condition against which no headway has yet been made in the societies themselves. The old members maintain their ground, being more concerned to keep a firm hold upon their own too cheap insurance than in the general welfare of the societies at large.

In connection with the Independent Order of Foresters, Mr. Grant, of the Insurance Branch, made a most valuable actuarial comparison between the condition of that order's surplus funds and its policy liabilities, as well as an examination of the influence of alleged high lapse or secession rate upon the adequacy of the premiums charged. This work was done at the instance of the Commission, with a view to ascertaining the soundness or otherwise of the contention advanced by the Supreme Chief Ranger. Similar comparisons have already been made in regard to the other societies. In the case of this particular society the work was made more difficult and complicated by the circumstance that the age 70 is, by this society's contracts, conventionally fixed as a period of total disability, at which the payment of the sum insured begins, a factor absolutely neglected in fixing the level premium. At their highest mark, since 1898, the society's premiums may be summarized according to Mr. Grant's careful figures, and compared with the premiums required by the N. F. C. table, as follows:—

Age.	I. O. F.	N. F. C.
20	9.12	11.82
25	10.72	13.83
30	13.00	16.52
35	15.73	20.14
40	19.15	25.14
45	23.71	32.27
50	33.06	43.03

But many members of this society are still paying upon the old rates, the comparison as to them being as follows:—

Age.	I. O. F.	N. F. C.
20	7.07	11.82
25	7.64	13.83
30	8.21	16.52
35	8.89	20.14
40	10.03	25.14
45	11.63	32.27
50	16.53	43.03

These comparisons are typical, both with regard to actual deficiency in the highest rates and with regard to the greater deficiency of old members' rates, of all the societies under consideration.

Mr. Grant further illustrates, in the most striking fashion, the inadequacy of the old rates by showing, in comparison with them, what premiums would be required to defray the actual cost of carrying the insurance if no deaths at all occurred in the society before 70 years of age, at which date the benefits begin to be paid :

Age.	I. O. F.	No deaths before 70.
20		
25	7.64	6.83
30	8.21	8.70
35	8.89	11.23
40	10.03	14.75
45	11.63	19.86
50	16.53	27.78

Mr. Grant also compared the actual mortality of the society from 1894 to 1898 with the N.F.C. table, with the result that a striking agreement was shown.

The influence of lapses or secessions in lowering the necessary premium rate, so much relied on by the societies, especially the Independent Order of Foresters, was also carefully considered by him. He shows that the large proportion of lapses occur during the first two policy years, and a very small proportion after the sixth year. He illustrates the persistency of the old membership from the records of the society. The result is shown to be that, inasmuch as a large proportion of the total gain from lapses is realized in the earlier years, the net result is not to lessen, but to increase, the amount necessary to hold in reserve.

Mr. Grant made four valuations upon different tables the O (m) table, with lapse, the same table, without lapse, the Canada Life Select (or Hunter) table, with lapse, and the N.F.C. table. The lapse rate was in each case by the society's own experience. The reserves computed upon the basis of the N.F.C. table were the lowest. Upon that basis, the present value of the society's policy obligations above the present value of its future assessments or premiums is $58,843,728. To meet this obligation, the society has an adjusted surplus of $8,817,653.38.

Your Commissioners look upon the most recent declaration of Parliament in the incorporation of friendly societies as an indication of the policy of Parliament upon the subject now under discussion. In 1898, when the Ancient Order of Foresters was incorporated as a friendly society, its incorporation was only permitted upon terms of maintaining the statutory legal reserve, which involved the collection of premiums or assessments sufficient to enable such reserve to be established and maintained.

They also consider that the experience and history of that society under the parliamentary requirement indicate the wisdom of the parliamentary policy.

The stability of these useful bodies ought to be legislatively assured, and the only method of securing and maintaining that stability known to the science of insurance is to forbid the making of contracts below actual cost.

That the cost of friendly society insurance is less than the cost of what is sometimes called 'old line' insurance may properly enter into consideration when dealing with the question of what actual cost is, but it cannot affect the principle which your Commissioners offer for legislative recognition. It is believed that the adoption by Parliament, for the future business of these societies, of the National Fraternal Congress table, with the rate of 4 per cent, will give to their future business the stability which their wide and useful operations merits.

With regard to their present business and assets, considerations of some difficulty present themselves. The effect of calling peremptorily upon the old membership to re-enter their societies at the new rates and at their present ages would, no doubt, be to precipitate a large volume of lapses, and to deprive many persons of the insurance protection for which they have been paying, though inadequately, for many years.

On the other hand, it is not equitable that members hereafter joining and paying rates just equal to actual cost should have their rights affected and their protection imperilled by the needs of those whose provision may prove inadequate.

Your Commissioners are also impressed by the inexpediency of legislation for the alteration of contractual rights.

Upon the whole, they recommend that friendly societies be required for the future to issue all policies at such rates as will enable them to maintain reserves computed upon the N.F.C. table of mortality at the rate of 4 per cent, and to keep reserves of all adequate rate business absolutely separate and distinct for the exclusive benefit of policies upon which adequate rates are collected.

Should their present members desire to bring their insurance within the new legislative provisions, they should be permitted to do so upon paying the new rates for their attained ages, reduced by giving credit for their respective shares in the old fund.

Should they prefer to continue upon the old rates, they should have the option of doing so, retaining their insurance for such sums as those rates and their respective shares in the old fund will purchase at their attained ages, at the new rates.

They should, if they prefer it, have the right to maintain their policies by paying the new rates for age of entry, making good the difference between their respective shares in the old fund and their respective shares in the new reserve by liens upon their policies, upon which interests should be payable annually.

If they prefer to discontinue the insurance altogether, they should receive paid-up policies for their respective shares of the old fund.

These are substantially the options offered by the Ancient Order of Foresters after its incorporation on terms requiring the legal reserve to be maintained.

There should be a further option, in the opinion of your Commissioners. A term rate for the whole amount of insurance, for the number of years between the member's attained age and the age 65, should be computed upon the prescribed basis, giving credit for the member's interest in the old fund, and he should be permitted to take a term policy accordingly, but this option should involve a fresh medical examination.

These options furnish the best means which your Commissioners are able to suggest for minimizing the disturbance of interests which an increase in rates may cause, and for securing the full benefit of the present funds to those to whom they belong. It would be, however, entirely proper to leave these details to the societies themselves.

XIII.—State Insurance.

This is part, and only a part of a large, important and difficult subject. There is in most countries a growing tendency, in respect of enterprises involving public or quasi-public service, towards nationalizing or municipalizing them or otherwise putting them on the footing of being oeprated by and for the public. The post office, telegraph, telephone, transportation, banking, water and lighting services have all been somewhere and at some time made the subject of this extension of the governmental idea. In New Zealand, where the insurance of lives by the state has proved to be successful, practically all services of this kind are also in the hands of the state, and state insurance instead of taking an anomalous position as a state enterprise among private enterprises, finds its legitimate and natural place among other state enterprises. In this country the post office is the only type of exclusively governmental public service, though public ownership has extended into the domain of banking and transportation, while municipal bodies are working towards the ownership and operation of public telephones, waterworks, lighting and power plants and electric street railways.

The only instance of the successful insurance of lives by the state of which the Commission has information is in New Zealand. There it is a part of a carefully devised system by which all public utilities are operated by the state. And it has been successful because it has been carried on by means of the same aggressive agencies as if a private corporation were behind it. Agents are employed to push business and canvass risks. The advantages of the contracts offered are widely advertised, and in

all respects the state conducts the life insurance business upon the same principles and under the same conditions and rules as if it were a well managed and enterprising private corporation.

Your Commissioners are of opinion that at the present time and under present conditions it is not expedient for the state to take up the business of life insurance.

Apart from the fact that the companies now fully cover the field, there are many problems in state ownership still to be solved, pertaining to what are public utilities in a broader and more vital sense than life insurance, and the solution of these may be safely awaited.

Giving life insurance a place in a harmonious general system, involving the exclusive public ownership of a comprehensive group of public and quasi-public services, would present an entirely different question.

XIV.—Contractual Uniformity Throughout Canada.

The policy of the Dominion Insurance Act is to exempt from its operation companies of provincial origin whose business is confined within the limits of the province of origin, and the Commission understand that with regard to such companies legislation by the Dominion restricting freedom of contract would be in fective.

With regard to companies which are incorporated by Parliament, the Commission understands that no such question arises, and that for such companies Parliament may effectively lay down contractual rules.

With regard to British and foreign companies, they may theoretically confine their Canadian business to one province of the Dominion or they may extend it into two or more provinces. As some of the provinces issue licenses authorizing the transaction of insurance business within their respective limits, it may be that where such British or foreign company confines its Canadian business to a single licensing province, the law of that province governs its contracts. It seems further possible to raise a similar question with regard to the extension of business by such a company into two provinces, if both of such provinces grant licenses. It might then be suggested that the law of each respective province governs the company's contracts in each.

The Dominion Act, however, forbids any British or foreign company to do business in Canada at all without a Dominion license, and seems to assume, therefore, that in both of the cases supposed the provincial license would be ineffectual. No attempt, however, at a judicial determination of this question has, so far as the Commission is aware, been made, although it was in evidence that such companies have been doing business, principally in the province of Quebec, without complying with the Dominion Act and without taking out any license.

Again, in regard to companies of provincial origin seeking to extend their business into other provinces, the Act, though such companies are declared exempt from its operation while they remain 'at home,' permits them to take out a Dominion license, and, under its protection, to do business throughout Canada.

It seems to follow that with regard to such a company, so extending, the penalties prescribed by the Act would be incurred by doing extended business without a Dominion license.

These considerations point to the expediency, in the public interest, of such a concurrence of legislative action by the Dominion and the provinces as will secure uniformity of contract throughout Canada in any view that may ultimately prevail as to where the legislative jurisdiction resides, in any case that may arise.

In the extreme view of provincial jurisdiction, the Dominion would be limited to legislation with regard to companies incorporated by it. In the extreme view of Dominion jurisdiction, the only limit would be with regard to companies of provincial origin confining their business to the province of origin. Between these extremes are many intermediate possibilities. In any case, therefore, if insurance contracts through-

out Canada are to be simplified and standardized effectively, concurrent legislation is desirable.

Counsel advising the Commission have conferred upon this subject with the counsel for the two provinces of Ontario and Quebec, who were appointed to represent policyholders of those respective provinces before the Commission. Your Commissioners sincerely hope that the conference may result in recommendations to the governments of those two provinces which will bring about the concurrent legislation which your Commissioners deem so desirable.

Other Topics.

The Commission was memorialized by the Life Managers' Association, majority and minority memorials being presented, by the Association of Life Underwriters and by the Policyholders' Association, the first representing the views of the company management, the second the views of the agents or field force. Many of the topics embraced in these memorials have already been dealt with.

It was probably to be expected that the views of these bodies should be more or less divergent in respect of many matters of importance, and your Commissioners have given careful consideration to every subject brought forward in all the memorials.

Gain and Loss Exhibit.

The general view of those representing company management is against requiring, among the matters embraced in the annual returns, the gain and loss exhibit which is so frequent a feature of the returns required in the United States, and which was exacted from the different companies during this inquiry for the purpose of illustrating and analysing the inordinate expense under which the companies carry on their business.

The management of the Canadian companies find fault with it, not because of any inherent demerit, but because it may perhaps deter the British companies from continuing their Canadian business. The management of the British companies, on the other hand, are of the view that, as the exhibit depends for any value it may have upon mortality gains, those gains should be shown in a more accurate way than is possible by any computation made within the audit of any particular year.

There is much force in this latter suggestion. It is manifest that the mortality in any particular year may be quite deceptive, and may not fairly represent any useful average.

Your Commissioners are of opinion that in view of the recommendation made for limiting the expense of first year insurance, viz.: its limitation to the loadings of the first year premiums with the addition of the mortality gains directly due to the new business of the year, it will not be necessary to require more of the details covered by the gain and loss exhibit than may be necessary to enable the Department to ascertain whether the expenditure has been kept within the limitation. All the other subjects embraced in the exhibit are, your Commissioners think, sufficiently disclosed in the returns as they will be amended.

Verification of Returns.

The Managers' Association has suggested that the annual return should be submitted to and its signing directed by the Board of Directors, that the insurance and annuity liabilities returned should be subscribed by a duly qualified actuary, and the portion of the return dealing with general questions of finance by auditors, one of whom should be a qualified member of a society of accountants.

Your Commissioners are of the opinion that this suggested requirement is one whose development in practice may well be left to the discretion of the companies

themselves. No certification by actuary or accountant could be permitted to lesse the liability of the Board of Directors in respect of the returns, and as the companie will find it to their advantage to introduce scientific accuracy into their returns, the may be expected to do so as speedily as their circumstances will permit. It mus not be forgotten that the actuaries of the Department value the insurance liabilitie conclusively, so far as the companies are concerned, at three cents per policy, and i a more frequent departmental valuation is required in accordance with the amend ment proposed by the Commission, there does not seem to be any real reason to appre hend a state of undiscovered insolvency.

Amalgamation and Transfer.

It is suggested that there should be some simple method prescribed for th amalgamation of companies or the transfer of business from one company to another This suggestion is proper, and the proposed amendments cover provisions in tha regard which will, it is believed, facilitate honest and fair transactions of the kind while making impossible such abuses as were discovered in the course of the inquir into the affairs of the Home Life Association and the Union Life Assurance Com pany.

British and Foreign Companies and Trustees for.

The classification of companies whose corporate powers are derived outsid Canada should be amended so as to divide the present class 'foreign' into the classe 'British' and 'foreign.'

The trustees who may hold their Canadian assets should include Canadian trus companies, and trustees other than Canadian trust companies should be required t give adequate security for the proper performance of the trust.

The provision enabling such trustees to deal with the assets should secure a fai margin against fluctuation. The valuation, your Commissioners recommend, shoul never exceed 90 per cent of the market value nor should it in any case exceed th par value of the security.

Assets held for Canadian Policyholders in British and Foreign Companies.

The Underwriters' Association asks that British and foreign companies, whe making the statutory deposit and vesting assets in trustees for the security of Cana dian policyholders, should be required to put up Canadian securities. The statut now permits, in respect of the deposit, securities of the Dominion and the province besides securities of the United Kingdom in the case of British companies and secu ities of the United States in the case of United States companies. The mainten ance of their deposits in these high class securities, which bear low rates of interes does not operate as a descrimination in favour of British and foreign companie But it has been pointed out that there is no express requirement with regard to th nature or class of the securities which may be vested in trustees, and the Commissio has ascertained that the absence of any such requirement has resulted in some case in the assets so vested in trustees being entirely outside the range of permissibl investments. Your Commissioners think this should be remedied by amending th section in question accordingly.

But the further question remains, whether the assets vested in trustees shoul be required to consist of Canadian securities. These assets are required to be mair tained in Canada for the benefit of policy-holders here, and your Commissioner see no reason why, if assets of a character different from those constituting the gov ernment deposit are chosen, they should not be such as may be realized upon i Canadian courts. Your Commissioners accordingly recommend an amendment re quiring these trust assets to be of the same class as the deposit or of the class o permissible Canadian investments.

Incorporation of Managers and Agents.

Both the Managers' Association and the Underwriters' Association desire incorporation. Your Commissioners are of the opinion that this subject is not within the scope of the Commission.

Provincial and Municipal Taxation.

The Life Managers' Association has asked that some measure of relief should be suggested in respect of provincial license fees and provincial and municipal taxation. These subjects are entirely within the legislative control of the different provinces, and your Commissioners cannot, therefore, make any effective suggestion in regard to them.

Form of Returns.

The minority memorial from the Life Managers' Association strongly urges the adoption of the forms of return to the Board of Trade prescribed in the British Act of 1870, or some modification of them based upon their principle.

The basis distinction between these forms and those now in use in Canada is two-fold. The Canadian forms take into the account of income and expenditure only moneys actually received and paid out, while the Board of Trade returns proceed upon the principle of a revenue account, taking into consideration not only moneys received and paid, but moneys earned and due. The balance sheet of the Board of Trade Returns also, necessarily differs from the Canadian Statement of Assets and Liabilities by the operation of the same difference in principle.

There is, your Commissioners are convinced, no serious difficulty in deducing from the Canadian Returns all the information which it is desirable the returns should convey for the purposes of facilitating the departmental examination of the company's affairs which our Act prescribes, but which is not called for by the British Act. The fundamental difference between returns followed by departmental verification and returns unverified lies at the root of the distinction which has always been made in the two systems.

Your Commissioners believe that with the additional features in the returns recommended under a former head, and with the elastic provision for requiring modifications in their form and contents, also recommended, no real difficulty need ever arise.

Promissory Notes given for Premiums.

The Policyholders' Association in its memorial suggests that the acceptance of promissory notes for premiums is detrimental to the best interests of the business.

In this view your Commissioners agree. It is unfair to those who pay their premiums in cash, unfair to the companies and conducive to non-persistent and therefore unprofitable business that persons who do not pay for their insurance but merely come under an obligation to pay, which is of doubtful value, should be placed upon the footing of payment. It savours of the rejected rebate and should be prohibited.

Government approval of Premium Rates.

The same association desires approval of premium rates by the Superintendent of Insurance. In this your Commissioners do not concur. A healthy competition, with the opportunity of a free comparison of the rates charged and the results attained will secure the insuring public against undue rates. This free comparison for this purpose, was in the minds of your Commissioners when making their recommendations upon the subjects, distribution of surplus and returns and publicity.

Deposit of Securities with Superintendent.

Nor do your Commissioners agree with the suggestion that all securities shou deposited with the superintendent. This would be inconvenient in a high degree could serve no useful purpose.

Making all Business participating.

The suggestion by the Underwriters' Association that all business written s participate in profits does not recommend itself to the Commission. Insurance fixed amount and at low rates is the simple and normal form. It will always be s for by those who desire only to make provision for their families, and are indif to the more or less speculative forms in which insurance is offered.

Nor does the Commission see any necessity for compelling companies to c themselves to either participating business or non-participating business. In of the recent legislation in the United States this election has been made compu But your Commissioners are of opinion that every useful purpose will be fully by requiring companies which do both classes of business to keep each in a di and separate branch.

Restricting Shareholders' Dividends.

The suggestion that the dividends of shareholders should be restricted by le tion is not approved. The stimulus to competition which publicity and comp may be expected to afford will prevent undue and disproportionate stock divide

Summary Determination of Rights.

The Policyholders' Association asks that the liability upon an insurance should be summarily determined by the superintendent. To this your Commiss see many grave objections. But it is confidently expected that the simplificatio standardizing of insurance contracts which this report recommends, will acco all that is necessary to prevent any improper resort to litigation.

Conclusion.

The draft Bill and schedules accompanying the report consist of the Ins Act as embodied in the recent revision of the Statutes, cap. 34, and the sched it, with such alterations in and additions to both as serve to embody the recom tions of the Commission.

All which is respectfully submitted.

D. B. MACTAVIS
J. W. LANGMUI
A. L. KENT.

Dated at Ottawa, this 22nd day of February, 1907.