NEW ZEALAND GOVERNMENT INSURANCE.

CASE FOR OPINION

DRAWN UP BY

F. W. FRANKLAND, Government Actuary and Statist.

(i.) *Introductory.*

The Actuaries' report of the 25th March, 1887, raised certain questions as to the future administration of the funds, and a new question came into prominence at the same time, on which their opinion is desired.

(ii.) *Future Administration of Temperance Section.*

The first of the questions, arising out of the report itself, related to the manner in which the Temperance Section should be administered. The Actuaries reported a deficiency of £2,759 in this section, and, although they stated that this deficiency need not excite uneasiness since no surplus could have been expected to accrue during the short period that the section had been in existence, great dissatisfaction is felt among policy-holders of the section at their temporary exclusion from participation in bonus; and there has been a great check to the issue of new policies in the section, without any corresponding increase in the business of the General Section. The nature of the complaints made may be elucidated by the following extracts from memoranda by one of the leading district representatives of the office:—

"I beg to append a summary of what I think necessary to be done in reference to the Temperance Section of the department, in order to place entrants in as good a position as though taking policies in the General Section. . . . . A newly-created fund—three years old—however favourably circumstanced in the matter of the picked character of the lives included in it, or otherwise, cannot possibly be expected to earn a surplus proportionate to that credited to the fund of the rest of the department, which has been accumulating during sixteen years, and which has had the benefit of all the lapses and surrenders taking place during that period. This existing surplus in the General Section is participated in by entrants immediately upon entry into the section, which surplus those entrants have not contributed a shilling towards creating. Why should the entrants into the Temperance Section of the same office be debarred from the same advantage through the action of the office in separating the funds?

"If it is desired to obtain insurers in the Temperance Section that section will require to be placed upon an exactly equal footing with the General so far as participation in accumulated and accumulating funds of the whole department is concerned; the only separation which should be made ought to be in the matter of the lives, which, each period, should be valued from a mortality point of view. If it be found that the mortality of the Temperance lives proves less than expected, a higher bonus should be paid in proportion; if the mortality proves greater than expectation, a smaller bonus should be paid; but the mode of calculating and valuing the expectancy should be the same in both sections.

"As matters now stand, it appears that admittedly good—if not the best—lives are invited to enter a section—Temperance—which, because of its youth and the peculiar separation of the funds of the department, has not a shilling (in the way of profits) to its credit; while, for the same premium payments, the same lives may, in the same office, become part-owners of a known cash surplus of £94,000. The result is obvious. Temperance business (which was, and may still become, a great attractive feature of the department) will, under such circumstances, become practically unobtainable.

"If no adjustment of the forced disparity between the sections is made, the past history, accumulated capital, and undoubted success of the department become factors which cannot be taken into consideration by the insuring abstainer when comparing our office with others before entering. The office is sure to suffer by the comparison."

The Consulting Actuaries, following the memorandum which had been sent them for their guidance, had based their report on a dissection of the entire accumulated fund of the department into two separate portions, to be credited respectively to the General and Temperance Sections. The materials for the dissection were furnished to them by the department, and they carried it out by apportioning receipts and expenditure between the two funds. In view, however, of the fact that no statute and no Order in Council makes provision for the