

based upon a scale of surrender values distinctly higher than that used for the calculation of similar surrender values under the society's ordinary policies should members under such policies desire to deal with them in a manner similar to the options available under a tontine policy. Owing to this fact the society has perforce to limit the period in which the tontine options can be exercised to one month from the date of the expiry of the tontine term, as thereafter the policy reverts to the ordinary scale of surrender value adopted by the board, as prescribed in the society's articles of association. The various tontine options referred to above are as follow:—Option A: To apply the cash profits allotted to the policy in the purchase of a paid-up policy payable at death, but without profits, which paid-up policy would be in addition to the original assurance. Option B: To apply the cash profits in the purchase of an annuity in reduction by a fixed amount of the future annual premiums that may be payable under the original assurance. Option C: To take the profits referred to in cash and to continue the assurance, which would thereafter share in the ordinary profits of the society divided at each quinquennial investigation. Option D: To apply the whole share of assets referred to under option F in the purchase of a paid-up policy without profits, payable in the same event as the original assurance, which would be surrendered. Option E: To apply the whole cash share of assets in the purchase of an annuity payable yearly throughout the life of the assured. Option F: To receive in cash the whole cash share of assets. This cash share of assets consists of the surrender value of the policy at the expiration of the tontine term, plus the amount of the cash profits referred to under option C. The effect of these options is of necessity somewhat modified in the event of the term of premium-payment coinciding with the tontine term. The exact nature of the options is clearly set out in detail in every tontine policy issued, so that the member thereunder could see at the outset exactly in what manner he might deal with the policy when the time came for the tontine period to expire. That is an explanation of the tontine system. I will now touch on the point to which you referred with regard to the disappointing results. The society, for the first few years after the commencement of the issue of these tontine policies, published estimates of what it believed would be the probable results under such policies. These estimates were partly based upon the actual results of policies of a similar type that had expired in certain American life-assurance societies, and they were also based upon what was then considered the probable future interest-earnings of the society. The results available under this society's policies at the expiration of the tontine term have not been so favourable as the estimated results.

15 *Mr Fraser*] Not so favourable to whom?—To the insured. The main factor accounting for the discrepancy between the actual and the estimated results is the totally unexpected drop in the rate of interest to be earned by securities in which a prudently managed life office may invest its funds. This drop in the rate of interest was brought about by the great financial crisis of 1893, which adversely affected the interest-earning power of this society, amongst most other financial institutions of a similar character. Prior to the crisis the society was earning well over 6 per cent. per annum interest upon its invested funds, but since that date it has hardly averaged $4\frac{1}{2}$ per cent. In addition to the falling-off in the rate of interest, it has been necessary from time to time to take large sums that would otherwise have been available for distribution as profits upon the policies, to provide for depreciation in the value of securities brought about by the financial crisis referred to.

16 *The Chairman*.] Do you mean that there have been losses on the realization of securities on which the society had advanced moneys?—Yes.

17 And that you had to take from your ordinary funds amounts to fill up the gaps made in that way?—That is so.

18 *Mr Fraser*.] From the profits, not the capital?—As a matter of fact, these sums were taken from a reserve fund which had been built up from time to time. The estimates at the time they were issued were issued in all good faith, and it was considered probable that they would be more than realized; but owing to the facts mentioned above—matters which it was impossible to foretell and provide against—the profits earned by these policies were considerably reduced, and consequently the estimates were not realized. These estimates were always published as such, and every care was taken to impress upon intending assurers that they were in no manner guaranteed. The crux of the whole position appears to me to be this: Is the society to be bound by the estimates which were issued? That is a matter which has been settled in the Courts.

19 *The Chairman*.] Seeing that your reserve funds are built up for the purpose of meeting such a contingency as a financial crisis, does it not strike you as a very unusual thing that when a crisis happens you should take away the profits of your policyholders simply in order to put your reserve funds back to what they were before?—As a matter of fact, the whole of the reserve fund was used up in that way, and more.

20 Then these things absorbed the whole of your reserve funds?—Yes.

21 And what you took from the policyholders was the amount needed over and above what you had reserve funds to meet?—That is so.

22 You said in the course of your statement that under the tontine system it would be seen that the policyholders must receive larger profits than if they had been insured under the ordinary system. Can you show the Committee analogous cases of one person insured under the ordinary system and another under the tontine where it worked out in that way?—I demonstrated that to you yesterday. I pointed out what the amount of the profits under the ordinary system amounted to on Mr Larsen's policy, and I showed you what the addition had been that arose out of the tontine fund.

23 You still affirm that his profits are larger than they would have been if he had been insured under the ordinary system?—Undoubtedly.

24 *Mr Allen*.] The surrender value of Mr Larsen's policy for £500 and profits was given in evidence as £104 6s.: is that correct?—Yes.