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NEW ZEALAND.

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# PUBLIC ACCOUNTS COMMITTEE

(REPORT OF) ON THE PETITIONS OF W. T. LARSEN AND A. A. LARSEN (*RE* TONTINE POLICIES); TOGETHER WITH MINUTES OF EVIDENCE.

(MR. RUSSELL, CHAIRMAN.)

*Reports brought up on the 8th September, the 20th October, and the 18th November, 1910, and ordered to be printed.*

## ORDERS OF REFERENCE.

*Extracts from the Journals of the House of Representatives.*

THURSDAY, THE 7TH DAY OF JULY, 1910.

*Ordered*, "That a Committee be appointed, consisting of ten members, to examine into and report upon such questions relating to the Public Accounts as it may think desirable, or that may be referred to it by the House or the Government, and also into all matters relating to the finances of the Dominion which the Government may refer to it; three to be a quorum: the Committee to consist of Mr. Allen, Mr. Buxton, Mr. Fraser, Mr. Graham, Mr. Laurenson, Hon. Mr. T. Mackenzie, Mr. Massey, Mr. Reed, Mr. Russell, and the mover."—(Right Hon. Sir J. G. WARD.)

THURSDAY, THE 8TH DAY OF SEPTEMBER, 1910.

*Ordered*, "That the report of the Public Accounts Committee on the petitions of A. A. Larsen and W. T. Larsen be referred back to that Committee for further consideration."—(MR. HOGAN.)

THURSDAY, THE 20TH DAY OF OCTOBER, 1910.

*Ordered*, "That the report (No. 2) of the Public Accounts Committee on the petitions of A. A. Larsen and W. T. Larsen be referred back to that Committee for reconsideration."—(MR. HOGAN.)

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## REPORTS.

Nos. 47 and 70.—Petitions of A. A. LARSEN and W. T. LARSEN, of Wanganui.

PETITIONERS pray for legislation affording protection and relief from the methods of the Colonial Mutual Life Assurance Society (Limited).

I am directed to report that the petitioners were insured in the Colonial Mutual Life Assurance Society (Limited) for £500 each, payable at death, but they allege that they were induced by canvassers of the company, in the year 1894, to change their policies to tontine policies current for fifteen years.

The inducements held out to them were in the nature of verbal assurances of glittering prospects of large bonuses and paid-up policies at the close of the tontine period, in addition to insurance during the fifteen years, and a promise of refund of premiums if death occurred during the time.

No document has been placed before your Committee to show that these glittering prospects were authorized by the company. They do not appear either in the form of proposal or the policies which were produced, and which constitute the contract in each case. The sole document before the Committee which deals with the matter is a leaflet produced by the petitioners, which has upon it a case quoted from the experience of a New York society, which was intended to suggest a rate of profits of a most extravagant character as being possible under the tontine scheme of the society. No doubt, this leaflet is largely responsible for the widespread disappointment of tontine-policy holders in the society.

Your Committee is of opinion that the most casual consideration should have satisfied the petitioners that there was not the slightest possibility of the canvassers' promises being realized.

Soon after the tontine period began, the business of the society suffered severely from a fall in the rate of interest and a downfall in the value of real estate, especially in Australia, causing decreased earning-power, the absorption of reserves, and large losses upon realizations. The results were that not only were the petitioners' hopes of large bonuses not realized, but the normal profits of the society's life business for a time disappeared, with consequent disappointment to the petitioners, and many other equally disappointed policyholders.

The tontine epidemic appears to have expended itself, and your Committee is assured that it is not likely that there will be anything in the nature of a recrudescence of it.

The moral appears to be that insurers should not expect more for their premiums than can be given on a fair business basis.

Your Committee has no recommendation to make.

8th September, 1910

G W RUSSELL, Chairman.

PETITIONERS pray for legislation affording protection and relief from the methods of the Colonial Mutual Life Society

I am directed to report that, no further evidence having been tendered in the Larsen cases, the Committee sees no reason to alter the report already presented to the House.

20th October, 1910.

G. W. RUSSELL, Chairman.

THE Public Accounts Committee, to whom were referred the above petitions, have the honour to submit the following resolution:—

That the previous reports of the Committee *re* the petitions of A. A. and W T Larsen be again forwarded to the House, and that the Government be recommended to take steps to ascertain what legislation has been passed by other countries regarding life-insurance policies with the view of protecting the public, in order that legislation for the same purpose may, if considered advisable by the Government, be introduced into Parliament next session.

17th November, 1910.

G W RUSSELL, Chairman.

## MINUTES OF EVIDENCE.

THURSDAY, 11TH AUGUST, 1910.

Mr. HOGAN, M.P., made a statement. (No. 1)

*The Chairman* Will you state the case for the petitioners, Mr Hogan?

*Witness* The petitions as read set forth the case fairly plainly from Mr and Mrs. Larsen's side. Both Mr and Mrs. Larsen were induced in 1893 to take out a policy with the Colonial Mutual Assurance Society. Six months later a gentleman representing himself as an agent of that company came along and persuaded them to change their policy—a life policy—to a tontine policy, representing that it was a much better investment than the one they had taken out originally. Accordingly Mr and Mrs. Larsen changed their policies. Mrs. Larsen's premium on the new policy was to be £16 1s. 3d. a year, which she has paid regularly during the currency of the tontine policy. Mr Larsen's payments were to be £22 5s. 10d., which he has paid regularly during the currency of the tontine policy, which was fifteen years. Mrs. Larsen has paid altogether in premiums on the new policy £240 18s. 9d. On the expiry of the fifteen years she was offered £85 18s. Mr Larsen has paid altogether £334 7s. 6d. at the rate of £22 5s. 10d. a year and he has now been offered, on the expiry of the fifteen years, £104 6s. It is contended by the petitioners that they should at least get their money back. Any one who knows anything about tontine policies knows that at any rate the money paid in ought to be forthcoming on the expiry of the term, because there are certain forfeitures from time to time, and there are certain sums that go to be divided amongst the remaining policyholders on the expiry of the time. Therefore the petitioners hold that, even if they did not get interest on the money they had invested, they should at least get their money back. You will see that they are offered a sum considerably below what they have actually paid in, and it appears on the face of it that there is something wrong with the management of the company. Consequently they have petitioned this House for legislative relief, if possible, or any other relief that the House can afford. There is a feature about these cases that in my opinion is remarkable, and it is this: When Mr Larsen had paid in only £289 15s. 10d. he was offered £137 as surrender value. I have the letter here from the company to substantiate the statement that I make. The letter is dated 8th June, 1906, and is signed by F T Ward, local secretary

1 *Mr Graham.*] How long was that before the fifteen years expired?—About three years. Mr. Larsen was then offered £137, and he had paid in £289 15s. 10d. Now, after paying in £44 11s. 8d. more, the company offer him £32 14s. less than they offered him in 1906. That is just a statement of the case from Mr and Mrs. Larsen's side, but I may say that I have evidence from

others, and I can produce letters to prove that this has been going on for some considerable time with other policyholders in the same company. Therefore we think it necessary that there should be some interference by Parliament.

2 *Mr Fraser.*] What is offered by the company in regard to the paid-up policy for £500?—I think that points like that would be better brought out by questions to the petitioners. This letter from the company to Mr Larsen will show the position on the 25th June, 1908. “In reply to your inquiry, I beg to inform you that the tontine period of the above-noted policy will expire on the 30th instant, and it is now open to you to exercise any one of the following options:—Option A The cash profits may be applied to purchase a paid-up policy for £24, payable after death of the assured. No further payment would be required under this policy for £24, which would be in addition to the present policy. Option B: The cash profits may be applied to purchase an annuity of £1 10s. 10d., to be used to reduce future yearly premiums under the present policy to £20 15s. Option C The profits, amounting to £15 17s., may be withdrawn in cash. Option D The cash value of the whole of the policy and profits may be applied to purchase a paid-up policy for £177. This would be payable on the death of the assured, and no further payments would be required under it. Option E The cash value of the whole of the policy and profits may be applied to purchase an annuity of £9 3s. 9d., payable during the remainder of your life. Option F The present value of the whole of the policy and profits, amounting to £104 6s., may be withdrawn in cash. If either option A, B, or C be exercised, the present policy may be continued by payment of the same rate of premium as heretofore, or the reduced rate quoted under option B, and will participate during its currency in profits to be distributed every five years. If option D, E, or F be exercised, the present policy will be given up. The options are only available for one month from the date of the expiry of the tontine period—*i.e.*, until the 30th July, and I shall be obliged therefore if you will kindly indicate before that date which option you wish to exercise.”

3 You will put that letter in?—Yes. Then there is Mrs. Larsen’s letter of a similar nature, but the figures are different.

4. *The Chairman.*] Were the dates of the closing of the policies simultaneous with husband and wife?—There is a difference of one month. That is all I have to say just now, Mr Chairman. Other points will be brought out as the case proceeds, especially as the petitioners are here to give evidence.

WILHELM THEODOR LARSEN Retired Hotelkeeper, Wanganui, examined. (No. 2.)

1 *The Chairman* ] Will you state your case, Mr Larsen, confining yourself as closely as possible to the facts?—First of all, when we took out a policy in the Colonial Mutual Society, we took out a life policy.

2. *Mr Fraser.*] How much was it for?—Five hundred pounds. About six or nine months later another agent came along named Maule.

3. *The Chairman.*] What was the name of the first agent?—Osborne. Mr Maule advised us very strongly to change our policy from life to tontine. He was staying in the house, and he was continually at me to do so. After a lot of persuasion I did. When we made the change he thought that he was entitled to a little bonus, because he reckoned he had made a small fortune for us. He said, “You will have £1,000 when the time expires, and you will have a paid-up policy,” and so on. Well, we made the change and went on paying. On one occasion some years after I was a few days late in paying my premium, and the agent—Mr Adams—had a job to get them to accept the money. He said, “I don’t think they will accept it,” but after persuasion they took the money, and I went on again paying. About three years before the fifteen years were up I went over to the bank one day, and the manager and I began to talk insurance. He said he thought it was a very good policy, because he knew of a man in Wanganui who did very well out of it. I said that I had always had that idea, but that of late I had begun to doubt. But, I said, “I will tell you what we will do. You had better write a letter to the head office of the company—coming from you it will carry more weight—and ask what they will allow me if I surrender now.” I got a letter back to the effect that they would allow me £137.

4. What became of the first policy? Did you hand that back?—Yes; the life policy was handed back. The other one I have here. [Policy handed in.] I have here a letter dated 8th June, 1906, that was sent to Mr Adams, the agent of the society, and he brought it to me. “Queen and Fort Streets, Auckland, 8th June, 1906.—DEAR SIR,—Policy 70680, W T Larsen: Referring to your favour of 29th ult., I beg to inform you that the approximate surrender value of this policy is £137.—Yours faithfully, F THOS. WARD, Local Secretary, per M.E.W.” I made a blunder in not accepting this, apparently. However, we went on paying, and later on got some letters from Mr Adams. I may say that another party had insured, and he was offered a great deal more than I was—pretty nearly his own money back. Very well, I came down here later on to see Mr Leslie, the resident secretary of the society, and we had a long discussion over the matter, and he said that that was all we could get, and so on. There is no need to go over it. He said that they sent out reports every year, and I replied that it was very strange I had never received one. So he rang for his clerk, and asked him how he dealt with the reports, and he assured me that he sent out a leaflet every year. However, nothing could be done. Later on I came to Wellington again, and saw Mr Leslie. I said I had come to ask him why it was that Mrs. Larsen was offered 7s. 6d. in the pound and I only 6s. 3d.? He said that I was so much older. I said, “That means to say that the more you pay in, the less you take out,” and he replied, “That is so.” I asked then why did the company make me eight years older than I was at the time. He replied, “It is peculiar that you should come with that now. You were satisfied at the time you were insured.” I told him that when I insured I looked on them as straightforward honourable men; but, I said, I am sorry to tell you that I find I am dealing with a pack of robbers.”

I came out of my shell and began to bark. That is all that I really can tell you. I might mention that I hold a letter here to say that I am loaded 9s. 2d. per £100, but instead of that it works out at £1 4s. 11d. per £100.

*Mr Hogan* That was the loading because Mr Larsen was a hotelkeeper, but it was not taken off after he retired from that business.

PETER DENNY LESLIE, Resident Secretary for New Zealand of the Colonial Mutual Life Assurance Society (Limited), examined. (No. 3.)

1 *The Chairman* ] We shall be glad to hear you now, Mr Leslie?—I am at a disadvantage this morning, because when I came here I did not know that I should have to reply to a petition lodged by Mr and Mrs. Larsen. I did not know that any such petition had been presented. I came here in accordance with the letter received from our solicitors advising that the Committee were going to meet this morning to consider petitions regarding tontine policies of the Colonial Mutual Society. The only petition that I knew of was one lodged about two years ago by several men in Auckland—Mr McIvor and others—and I came here this morning prepared to reply to that. Fortunately, however, I have the papers relating to Larsen's policy in the same bundle, because I have had a good deal of correspondence with them, and I dare say I shall probably be able to reply to that too. But I want you to know that I had no knowledge of this petition having been presented. I have Mr Larsen's original proposal here—the tontine proposal. It is for £500, payable at death, the premiums being payable until death. The other policy was cancelled. We really have nothing to do with that whatever. Apparently it was only in force for a few months, and was cancelled, and that was the end of it.

2. Have you got that original policy with you—the one that was surrendered in exchange for the tontine?—Oh, dear! no. That was fifteen years ago. That policy would be simply cancelled, and sent over to our head office in Melbourne. The policy that Mr Larsen is petitioning against is this tontine policy. As I said, the amount is £500, payable at death, the premiums being payable until death. The profits were taken on what is called the tontine system. The society has two methods of allotting profits, or, rather, it had at that date—one, the tontine system; the other, the ordinary system. The difference between the two systems is this. Under the ordinary system profits are allotted at fixed periods—at that time every five years. Under the tontine system the policyholder agreed that his profits should be reserved for a fixed period of ten, fifteen, or twenty years. In the event of his death during that period under the ordinary tontine policy no profits whatever were payable, only the sum assured. There seems to have been a good deal of misconception with regard to this term "tontine." Numbers of people seem to think it has got something to do with the amount assured, and also with the time at which the amount of the policy is payable. It has got nothing at all to do with these. It simply relates to the profits—nothing more or less. It does not affect the sum assured, or when the sum assured is payable, one iota. Now, this policy which Mr Larsen had is what we call a guaranteed mortuary dividend policy. By paying a slight extra premium he received from the society this privilege: that in the event of his death at any time within the tontine period, not only would we pay out the sum assured to his representatives, but we would also refund the whole of the premiums which he had paid. Well, as an investment against death I should say that one could not very well get a better, because simply for the use of his money he has his life covered—that is, if death takes place within the tontine period. Mr Larsen, of course, did not refer to that aspect of the policy at all. We were not only covering a liability of £500, but a liability of having to refund every premium he had paid during the tontine period if he died within that period. Mr Larsen has referred to his premium, and talked about the loading. Well, of course, I cannot tell him, nor can I tell you gentlemen, why he was loaded—or rated up, as we call it—because that is information that we cannot supply to the outside public. We simply inform a man of the terms on which we are prepared to take him—that is, the rate of premium required. He can either accept it or refuse it. As a matter of fact, Mr Larsen was rated up eight years. That is to say, his age at the time he took out this policy was thirty-nine next birthday and he was charged the premium for forty-seven next birthday. The extra premium which he had to pay on account of that rating-up amounted to £3 17s. 6d. a year, which in fifteen years amounted to £58 2s. 6d. I am referring to this matter particularly because Mr Larsen has mentioned it, and also for another reason. This extra premium was required to cover an extra risk. He was not a first-class risk. Now, in calculating the surrender value Mr Larsen gets absolutely no consideration for that extra premium which he paid. So that in contrasting the amount of the premiums paid during the period with the amount of the surrender value at the expiry of the period, this sum of £58 2s. 6d. cannot be taken into account at all, because it was required to cover the extra risk. When the petition was being read over, one point caught my attention. It says, 'Your petitioner was informed by the said company that the profits would be about £1,000 per policy at the end of fifteen years, and that on the expiry of that period he would have in addition a fully paid-up life policy for £500.' It is simply ridiculous for any reasonable man to suppose that the profits could be £1,000 on such a policy.

3. *Mr Massey.*] Will you clear up the point about that "fully paid-up life policy"? What is Mr Larsen's position now with regard to the company?—At the expiration of the tontine period he had the choice of six options, but did not exercise any.

4. Is there any such thing as a paid-up policy until death?—Yes, certainly, he had the choice of that—of a paid-up policy for a certain amount.

5 Not for £500?—Oh, no!—for an amount which the cash surrender value of the policy would purchase. That is merely an actuarial calculation. The amount of the paid-up policy was £177, apparently.

6. *Mr Graham.*] That would be payable at death?—Yes. There is one other matter that Mr Larsen referred to, and that is the approximate quotation of £137 as being the surrender value of the policy. Mr Larsen and I have discussed this before, and he has had an explanation of that matter. I was perfectly frank about it. When it was brought under my notice I turned up the correspondence to ascertain how this quotation came to be given. It appears that an application was made to our Auckland office—a branch office—for a quotation of surrender value. The clerk in the office, in giving this quotation, made a miscalculation. How he came to do it I cannot tell you, but undoubtedly he did make an error. If any proof is required on that particular point I should be prepared to submit our tables of loan values, from which the surrender values are calculated, to show you that it could only have been a miscalculation. Mr Larsen has already been told that.

7. *Mr Fraser.*] Perhaps you will state what the mistake was?—I do not know that I can at the present moment.

8. *The Chairman.*] The mistake was never rectified, was it?—No, simply because I did not know of it until Mr Larsen brought it up.

9. Was the Auckland office a branch office at that date?—Yes.

*Mr Larsen.* The communication was sent to Wellington, and the reply was received from Auckland.

10. *Right Hon. Sir J. G. Ward.*] What was the amount that ought to have been stated as the surrender value in 1906, Mr Leslie?—I could not tell you at the moment, but I could very easily ascertain and let you know. It seems to me in connection with this petition that if Mr Larsen thinks the society has not kept faith with him he has his remedy. The Courts of the Dominion are open to him. We are quite prepared to defend any action which he may care to take at any time. As a matter of fact, this subject of tontine policies, on exactly similar lines to Mr Larsen's case, has been before the Courts fairly recently, and it was decided in the society's favour.

11. *The Chairman.*] Will you quote a case?—Yes, *Boyd v The Colonial Mutual Society*.

12. Where was it heard?—In Wellington.

13. The date?—It came before a jury in January, 1909. The jury found a verdict for the society on questions of fact, which I may say I never anticipated, because you rarely get a jury with you, but the Judge said there were certain law points involved which he thought were important, and should be argued before the full Court. These points were argued at a considerably later date, and the verdict was in favour of the society.

14. Do you wish to ask Mr. Larsen any questions?—I think not.

*Mr Larsen.* There is one thing I overlooked. When I came to see Mr Leslie he said, "I can see where the mistake was made. Those confounded advance agents have misled you. Do you know what I do with them? The moment I find that they mislead the public, out they go. I said, 'Of course I can understand you are here to make me believe anything, but my opinion is entirely different. I do not blame the advance agent—I blame the company.' I asked him, 'Why do the company allow pamphlets to be printed by the thousand and given to the agent to hawk round amongst the public?'" I hold that pamphlet here by which I and hundreds of others were misled, and on which the agent pointed out what our profits would be. I said to Mr Leslie, "If that pamphlet were forwarded to me and I had not insured with you, I should be misled again," and better men than I have been misled by the same thing.

*Mr Fraser.* Do you produce the pamphlet?

15. *The Chairman* (to Mr Leslie).] Will you say whether that was issued by your office?—I could not say definitely. I have no reason to suppose that it was not.

16. *Mr Massey.*] Is the name of your society there?—Yes, there is a reference to it. It is many years ago, but I should say there was no doubt it was issued by the society.

17. *Mr Fraser.*] You admit liability for the representations made there?—The statements made there refer to profits which were declared by another office, not our office. We accept no liability whatever in connection with it.

18. Did you not take that office over?—Not at all.

19. Therefore you are not responsible for that circular?—If the society did issue that circular—and I think it did—we are responsible for it.

20. *Mr Hogan.*] And responsible for the statement that your office would afford better treatment than that?—That we expected to do so, yes.

*Mr Larsen.* That leaflet was handed to me by Mr Maule, and on it I decided to change my policy from life to tontine.

*Mr Massey.* Who was Mr Maule?

*Mr Larsen.* The agent—the canvasser.

21. *Mr Allen* (to Mr Larsen).] What was the premium on your original policy—not the tontine one?—I think it was £19.

22. Both policies were for £500, were they not?—Yes, and for life.

23. Have you got the proposal that you signed when you took up the tontine policy?—No. The Colonial Mutual Society keep that.

24. You have not got a copy of it?—No.

25. *Mr Fraser.*] When you agreed to exchange your original policy for the new one under the tontine system, were you led to believe that you would get a policy such as is referred to in that leaflet, with profits such as the leaflet refers to?—Yes, but my policy was for less money.

26. But in proportion you expected the same profits?—Yes.

27 *Mr Reed*] Were you loaded under both policies—the life policy and the tontine?—I was loaded under both, 9s. 2d. per £100, but instead of that it turns out to be £1 4s. 11d.

28. *The Chairman.*] Were you notified that you were loaded £1 4s. 11d.?—No. I got it in writing from them what I was loaded.

29. Is that produced?—No. I think Mr Hogan has the letter

30. Did you not know at the time that you were being charged a heavier premium than you should have been charged?—I did not look closely into the details. I thought I was dealing with a straightforward company, and did not allow the matter to bother me.

31 As a business man, did you not go and say, I thought I was going to pay such-and-such a premium, but I am paying so-much more: what is the reason for it'?—No. That is where I made a blunder I did not go into those details.

32. *Mr Massey* (to Mr Leslie)] Have you any grounds for believing that Mr Larsen was misled at the time he took up the tontine policy—I mean with regard to profits and possible advantages?—From my own personal knowledge I cannot answer your question I was not there when the proposal was given

33 Have you had any complaints from other members besides Mr Larsen?—Yes.

34. Complaints of being misrepresented?—Yes.

35. Did you look into them?—Yes.

36. Were you able to put them right in any way?—Well, I could not say that I was able to satisfy them all. We gave them an explanation.

37 Do you consider the society responsible for misrepresentation on the part of canvassers?—Well, we certainly would not knowingly employ a man who would misrepresent.

38. When you discover that a man has misrepresented the position, what happens to the man?—He is immediately discharged, no matter who he is.

39. You have done that?—Oh, yes! in many instances.

40. Do you consider that in equity—apart altogether from law—Mr or Mrs. Larsen have any claim against the society?—No, I do not. We have covered a very heavy liability during the fifteen years.

41 Has the society at any time since the date mentioned here—I think 1893—issued any leaflets similar to the one that has been handed in?—No.

42 *Mr Allen.*] Do you agree with the statement made by Mr Larsen that he was paying £19 under the old policy? Can you check that?—I can tell you now, I think. The position appears to be that the first proposal was for £200, payable at death, and the premium was £7 12s. Then there is a further proposal for £500, payable at death, on which the annual premium was £19 Then, the last one, and the one with which we are dealing, is a policy for £500, on which the premium was £22 5s. 10d. Possibly you would like to have the explanation of the difference between the premium charged in the first instance—viz. £19—and the £22 5s. 10d. I told you that under this tontine policy in the event of Mr Larsen's death during the tontine period the society would pay out not only the sum assured—£500—but a refund of the whole of the premiums that had been paid. That is the explanation of the difference in the premium—the extra cover

43 Would you explain to the Committee the difference in the method of applying bonuses by tontine and by the ordinary method?—Yes. The ordinary system, of course, is simply the system that is adopted by most life offices of allotting profits. Under the tontine system the profits of our society were allotted every five years in the same way that the ordinary profits were allotted, but they were not announced to the members, because they were to be reserved for a period of fifteen years. At the end of every five years the proportionate share of the profits on tontine policies which had gone off our books by death, surrender, or lapse was added to the remaining tontine policies. I think perhaps that I could not give you a better instance of it than just to show you how Mr Larsen's profits were arrived at. His general profits were £10 14s. The profits arising from deaths amounted to £3 2s., and the profit from lapses £2 1s. That shows that the tontine profits were larger than the ordinary profits, and that was what the society claimed they would be. I may say that the society is intensely disappointed with the profits. We frankly admit that. There are many reasons for it.

44. The £3 2s. and the £2 1s. profits have accrued owing to the tontine?—Yes; they would not have accrued otherwise.

45 Have you got a copy of the proposal?—I have the original proposal.

46. Can you lay that on the table?—If I lay it on the table, will it be returned to the society's possession?

47 *The Chairman.*] Certainly?—Then I have not the slightest objection.

48. *Mr Allen.*] Was the proposal altered?—No.

49 The question is, what is in the policy now?—The policy which you have here before you is strictly in accordance with the proposal. [Proposal handed in.] There is just one thing in connection with this proposal which I should like to explain Some years after we had adopted this tontine system we found that we were getting complaints, people did not understand their policies, and in order to try and protect the public we indorsed on the back of the proposal form something which we thought would get over all the trouble. Some people thought that at the end of the tontine period they were going to draw the sum assured although they had only got a whole-life policy Well, now this is the indorsement we had placed on the back of the proposal: "It is thoroughly understood by me that the amount to be assured' mentioned in this proposal is not payable at the expiration of the tontine period, and is only payable at my death."

50. Is it put on afterwards?—It is put on, and signed by the proponent at the time.

51 *Mr Massey*] Is that indorsement on Mr Larsen's proposal?—Yes, signed by him.

52 *Mr Allen.*] Then he could have had no doubt that it was a life policy, and not a policy payable on the expiry of the tontine period?—I do not see how he could possibly have had any doubt.

53. Why was it necessary to put that indorsement on?—We had had complaints from people who held whole-life tontine policies, and who thought they were going to draw the amount of the policy at the end of the tontine period, and as an additional safeguard we put that on the back of the proposal, although the proposal is clear.

54. Was the proposal clear in itself?—When you have read it I think you will agree with me that it is quite clear.

55 *Hon. Mr T. Mackenzie* ] Regarding the leaflet that has been produced, the example given there shows that the premium on the £2,000 policy was £109 16s. 8d. Working out the rate that Mr. Larsen paid on the £500, it would make it £89, as against £109 premium?—Yes.

56. But that was for ten years, while Mr. Larsen's was fifteen, so that what was paid by Mr. Larsen was really a higher total premium, was it not—the one running fifteen years as against ten?—Yes, you would naturally expect that his profits would be larger.

57 This one, worked out on the basis of ten years, shows a cash value of £1,131?—Yes.

58. With Mr. Larsen's, even on the £500, it would have worked out at £282?—You must not forget that you are comparing two policies which are not alike. Mr. Larsen's was a different policy altogether. It carried a special provision that in the event of death he got the whole of his premiums returned.

59 Did this other policy not carry that?—No. At least, I should like to see that leaflet. I do not think it is the same policy. (After perusing leaflet:.) No, it is quite clear there would be no return of premiums under that policy in the event of death.

60 *Mr Graham.*] But they would get the face value of the policy?—They would get the face value of the policy only.

61 With reference to this particular kind of policy that Mr. Larsen took out, according to my understanding of what you said, if the assured dies within the tontine period he makes an enormous profit, but if he lives until after the tontine period has expired, and accepts the policy that the society would give him in lieu of the original one, then the society makes the enormous profit?—There is no profit whatever. You cannot cover a man's risk for nothing.

62. There is a profit in this way on each side: If this man had died during the tontine period his representatives would have received the £500 plus all the premiums that he had paid?—That is so.

63. At the end of the tontine period he was entitled to a paid-up policy of £177, instead of the original £500?—That is so.

64. But when you issue that £177 policy he has paid his fifteen years' premiums at £22 5s. a year, amounting to £333 15s.?—That is correct.

65. So that you have in hand, against the £177 which has to be paid out at his death, £333 15s.?—That is so.

66. If his death does not occur for another ten, or fifteen, or twenty years, you have, in addition to the £333 15s., the interest that that sum will earn during that period?—Pardon me. We have not got that in hand. Where do you think we should get the money to pay the claims arising during those fifteen years?

67 You have received from him £333, and have that amount in hand, less whatever may be needed for management expenses?—No, I disagree with you. We have not that amount in hand.

68. You have received it from him?—Yes, but we have paid away a very considerable amount of it in satisfying claims on behalf of members who have died during the fifteen years.

69 That is what I say: that is where you get the moneys to pay those who die before the fifteen-year period has expired?—Yes, exactly.

70. If this occurs within the tontine period it is a loss to the society and an immense gain to the assured; but if he lives until after the tontine period, and accepts what you are prepared to give him at the end of the time, then the profits are considerable to the society. That is how you are able to offer these inducements to people to take up tontine policies. If they all matured within the tontine period you would "go bung" quickly?—No.

71 How would you manage it, then?—The extra premium to secure a return of the premiums covers that. They could all die and it would not make any difference, because we have got the premium to cover that particular risk. If the whole of the members died within the tontine period and we had agreed to return their premiums in addition to the sum assured, we have made provision for that, because we have secured a premium which will cover that risk. It is an actuarial calculation.

72 *Mr Reed.*] What was the basis of arriving at these profits in the tontine? Did the society take into consideration the fact that all those who survived the tontine would have to pay £3 5s. 10d.—I am taking it approximately, but this is the position with Mr. Larsen—in excess of the ordinary amount of premium that would have been paid on an ordinary £500 life policy?—No.

73 Then, do I understand that that £3 5s. 10d. is a complete gain to the society—that from the end of the period it is their gain for taking the risk during the tontine period?—I do not see that you can call it a gain. It is a definite charge for covering the risk.

74. If this were a £500 policy payable at death, Mr. Larsen would only have been paying £19 per annum?—Yes.

74A. He has gone through the tontine period, and he is now paying £3 5s. 10d. in excess of that amount?—Yes.

75. I take it that all those persons who survive the tontine period are paying an amount in excess of what they would have been paying had they had a life policy?—Yes, under a guaranteed mortuary dividend policy.

76. Did the society take that money into consideration when they arrived at the profits for the tontine period?—Undoubtedly

77. They have arranged their profits in consideration of the increased amount that will be paid by these assured?—That is so.

78. Then there has been a distinct loss on the tontine?—Yes.

79. *Mr. Allen.*] What would have been the profit that Mr. Larsen would have received if he had remained under the old policy and paid £19 a year?—That is quite impossible for me to answer. I could not tell you what the profits would have been.

80. It is quite possible to calculate, is it not?—No.

81. Let me put it in this way. What would be the bonuses that Mr. Larsen would have been entitled to if he had remained under the old policy?—I could not tell you, but I can say that the bonus would have been less. The amount of the tontine bonus is more than the ordinary. I think, however, I can give you what you want. I have told you how the profits under the tontine, amounting to £15 17s., were calculated. If it had been an ordinary policy the profits would have been £10 14s., but, seeing that it was a tontine policy, the profits were £15 17s., the additional amount being due to profits arising from death and lapses.

82. I want to find out how the £104 that was offered to Mr. Larsen was made up?—

83. *The Chairman*] I suppose it would be the surrender value plus the £15 profits?—Exactly. That amount of £104 is made up of the cash surrender value of the policy and the cash profits.

84. *Mr. Massey*] The indorsement on the back of the proposal reads, "It is thoroughly understood by me that the amount to be assured mentioned in this proposal is *not* payable at the expiration of the tontine period, and is only payable at my death." Do you not think that even in that form it is somewhat misleading, inasmuch as it is likely to leave the impression that the amount assured will be paid at the death of the person even if the death does not occur during the tontine period?—No, I do not think that impression could be given.

85. Do you not think it would have been very much better if something of this sort had been added after the word "death": "If it occurs during the tontine period"?—The premiums are payable until death, consequently the amount of the policy must be payable at death whenever it may occur.

86. Only within the tontine period?—Not at all. The premiums under the policy are payable until the man dies.

87. *The Chairman*] Is he paying still?—No; they are being advanced out of the surrender value of the policy.

88. *Mr. Massey*] Then he is still assured?—Yes.

89. If Mr. Larsen continues to pay his premiums he will still be insured right up to the time of his death?—Yes, and his policy in the future will participate under the ordinary system of bonuses.

90. *Mr. Allen.*] Will you explain the difference between "cash value" and "cash surrender value"?—There is no difference.

91. *Mr. Hogan.*] Would a person insured in the office and holding a paid-up policy have to pay any premium?—Naturally not.

92. In clause 2 of this leaflet circulated at the time and given to Mr. Larsen it is stated that the person who insured for £2,000 would have at the end of ten years a paid-up policy for £2,600. Would not Mr. Larsen be justified in assuming that if he paid up for fifteen years, at the end of this time he would have a paid-up policy, and would not have to pay any further premiums?—Possibly, but, as I pointed out before, the two policies are not alike.

93. But this was given as a sample of the kind of policy that your agent induced Mr. Larsen to take up?—Pardon me, he did not take that particular form of policy.

94. It is given as an example of a tontine policy, the same as Mr. Larsen took up?—It is not exactly the same.

95. If this were placed before Mr. Larsen he would be right, you think, in assuming from clause 2 that he would have a paid-up policy at the end of the period?—If he held a similar policy to that, yes.

96. Now, has Mr. Larsen signed that indorsement that you speak of?—

*Mr. Massey* The signature is there all right.

97. *Mr. Hogan.*] Has your office at any time paid a tontine-policy holder more than you originally offered him, as a result of his refusal to accept the first offered sum, and as a result of agitation on his part?—It has not, so far as I am aware, and I have been with the society in New Zealand nearly twenty-five years, with the exception of four years.

98. You will not say definitely that your office in New Zealand has not done so?—So far as I know, I say No, such a thing has never been done.

99. Will you then deny that your office has paid a tontine-policy holder more than it originally offered him, because he made a fuss about it?—I could scarcely deny it, because I have been away for four years, but I assure you I have never heard of such a thing being done.

100. Would you be surprised if I brought evidence before the Committee to show that your office has done so?—I should be very much surprised.

101. Has your office not advised Mr. and Mrs. Larsen of the accumulation of a bonus of £25, recently?—Yes.

102. Would that be under the new system?—Yes, they are now on the ordinary system.



FRIDAY, 12TH AUGUST, 1910

PETER DENNY LESLIE further examined. (No. 4.)

1. *The Chairman* ] I suppose, Mr Leslie, that when your society undertook the work of establishing these tontine policies, it had printed and issued certain books of prospectus containing tables and all particulars of the policies?—Yes.

2. Will you lay on the table, for the information of the Committee, one or more copies of those books?—I am afraid I cannot do that, for this reason. It is now something like ten years since we discontinued tontine business, and I do not think I have got one single prospectus in the office now. If I had, you should have it. If you particularly require it, I have no doubt I could get one by referring to my principal office in Melbourne. But at present we have none here.

3. Is it not rather an unusual thing for a large company not to keep a file of all the printed matter and prospectuses that it sends out?—They keep a file at head office.

4. You cannot say definitely that you cannot let us have one?—No. I will make a search, and if I have a copy you shall have it.

5. Is it a fact that the complaint that these petitioners make has been very general throughout New Zealand?—We have had several complaints.

6. Are you not aware of your own knowledge that there has been very wide complaint against your society in connection with the working-out of these tontine policies?—There has been general dissatisfaction.

7. I understand that the position you, as resident secretary of the society, take up in connection with the matter is that the scheme was honestly conceived, but worked out in a disappointing way?—That is exactly the position.

8. Will you tell the Committee what the elements were, in connection with the scheme, that worked out unsatisfactorily, or in what respects the anticipations of the society were not realized?—I have a statement here which perhaps you will allow me to read, and I think it will help you. I am not quite sure that I defined the tontine system so clearly yesterday as I should like to have done, and if you will allow me I will deal with that now, and also touch on the point to which you refer. The tontine system, as practised by this society is only applied to the profits earned by the policies, and is in no way connected with the sums assured thereunder. The profits allotted to the various groups of tontine policies at each quinquennial investigation, instead of being subdivided amongst such policies and notified to the members in the usual form of bonus certificates, are "tontined," or reserved for a certain period of years.

9. Excuse me, but will you at this point explain what the meaning of the word "group" is? Would that be a group in a district?—No, a group of policies according to the year in which they are taken out.

10. Then the group refers to the policies of that year?—Yes.

11. *Mr Fraser* ] All policies of that character?—Similar policies. There are different kinds of tontine policies.

12. But a "group" refers to a particular class of policy—not policies issued in any one year—does it not?—It refers to both things—the period, and also the class of policy.

13. *The Chairman.*] Would that cover the whole of the policies of the society throughout the world?—Yes.

14. *Mr Hogan.*] Is not each group limited to a certain number?—No. To resume my statement: In the case of the policies issued by this society, ten, fifteen, or twenty years is chosen by the proponent at the time of effecting the assurance. The profits that have been reserved or tontined in the manner indicated, at the expiration of the chosen tontined period are divided among the survivors of that particular group of the tontine policies to which the profits referred. It will thus be seen that the profits that have been allotted to policies becoming extinct during the tontine term, either by death, lapse, or surrender, go towards the swelling of the fund for distribution amongst the survivors at the expiration of the tontine term, as a policy that is discontinued owing to any cause during the tontine term receives no profits whatsoever. From the above it is patent that the survivors of a tontine term must necessarily receive a larger amount in profits than if they had assured under one of the ordinary policies of the society, under which they would have received their profits in the shape of bonuses allotted to the policies at the end of each quinquennial period. The tontine system of dealing with profits was attached to the society's whole-life policies—viz., those under which premiums are either payable throughout the whole of life or for a limited number of years, the sum assured, however, being payable at death only—and also to its endowment-assurance policies, which provide for payment of premiums for a certain term of years to be chosen by the proponent, and not necessarily the same period as the tontine term, the sum assured at the end of such term of premium-payment being payable to the member, or, in the event of his previous death, to his representatives. The premium-rates for whole-life policies and endowment-assurance policies under the tontine system were exactly the same as for policies for similar amounts under the society's ordinary system of division of profits referred to above. It will be seen, therefore, that the effect of the tontine system upon the society's policies from the assured's point of view was that should he survive the tontine term he would receive a larger bonus, either in cash or in paid-up insurance, than he would have had he assured under the ordinary plan, but that if he died during the tontine period his executors would simply receive the amount assured without profits, or, in the case of certain policies known as mortuary dividend ones, his executors would receive the sum assured, together with a return of all premiums paid, but no profits. In addition to the obvious benefits of the tontine system of dealing with profits as outlined above, the survivors at the end of the tontine period have several different options open to them of dealing with their policies. The benefits under these options, six in number, are calculated upon a basis distinctly favourable to the assured—that is to say, the calculations are

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.

25. *Mr Fraser* ] Did I understand rightly yesterday that the £104 surrender value is available at present to keep a certain policy alive, and what is the amount of the policy it keeps alive?—The surrender value is being used at the present time to keep the policy alive. The amount of the policy is £500

26. Was there not some mention of a policy of £174?—One hundred and seventy-seven pounds.

27. What was that?—That arose in this way: Under option D Mr Larsen would have surrendered the original policy, and would have received from the society in exchange a paid-up policy for £177, payable at his death

28. Without his making any more payments?—Without any other payments.

29. *Mr Hogan* ] If you do not fix the number in a group of tontine-policy holders, how can you say who are the survivors?—I explained that the policies were taken by groups in years.

30. I have a letter here from your office in which the number in the group is distinctly stated? Yes.

31. Your reply to my question about fixing the number in a group rather surprised me, because I fail to see how any tontine fixed for a certain number of years could ever terminate, since new insurers would be admitted to the group from time to time?—The number which you have in the group would represent the number of similar policies issued during that particular year

32. But there would be a number, would there not?—Yes.

33. It has been contended by some that people have been admitted to these groups after it has appeared to the insurers that the groups were closed. Is that so?—Not so far as I am aware. You must understand, of course, that these calculations are all made by the society's actuary at the principal office in Melbourne. None of that work is done in New Zealand.

34. But, of course, as resident secretary you would be conversant with the methods of conducting the business of the society, even in the head office?—Yes.

35. Can you give us instances of your paying the amount assured and the premiums to the representatives of any persons who were in Mr Larsen's group, but who died before the expiry of the tontine period?—Probably I could.

36. I do not ask for that information now, but I should like to know the position—if the group contained a certain number, how many in that group died, and how much was paid to their relatives?—Yes. That is information that will require to be obtained from the actuary in Melbourne.

37. *Mr Fraser* ] Would the money not be paid through your office here?—Yes. As a matter of fact I have two policies here which I intended to refer to to show the benefits arising under those mortuary-dividend policies in the event of death during the period. As it so happens, one of those I am going to refer to was taken out in the same year as Mr Larsen's. This is a policy issued on the life of a man named Mackay for £500, payable in twenty years. It is an endowment assurance, but it was tintoned for twenty years. The profits were on exactly the same system as Mr Larsen's, and in the event of his dying during the period he was also to get a refund of his premiums. This man's policy was taken out on the 14th December, 1893, and he died in August, 1908—that is to say, he paid fifteen years' premiums, amounting to £421 5s. The claim was paid in October, 1908, and the sum paid out was the amount of the policy—£500—and the refund of all premiums—£421 5s.—making a total of £921 5s. That is an instance of a claim actually paid on a policy which was effected in the same year as Mr. Larsen's. There is another matter I should like to mention. In his petition Mr Larsen says, "Your petitioner was informed by the said company that the profits would be about £1,000 per policy at the end of fifteen years, and that on the expiry of that period he would have in addition a fully paid-up policy for £500." I say that is not correct. The company never informed Mr Larsen to that effect. The agent may have given him an estimate. That is quite possible, but I really think that he could not have given an estimate of that sort, because the amount named—£1,000—is—well, no office in the world could give such results. Then, as to the amount of the surrender value which was quoted in 1906: Mr Larsen applied to the society's office in Auckland for a quotation of the surrender value in 1906. When replying to him yesterday I was speaking from memory, and I said that the quotation had been furnished by a clerk in the Auckland office. That was correct so far as it went, but on looking into the matter yesterday afternoon I found that Mr Larsen's application had been sent on to Wellington. The quotation was given from the Wellington office, sent to the Auckland office, and repeated to Mr. Larsen. I told you yesterday that a mistake had been made in calculating that surrender value, and that I would endeavour to prove to you that it was simply a mistake in calculating the amount. I am prepared to submit that proof to-day. When an application for surrender value comes in, the clerk who attends to these matters fills up a form, which we have for the purpose, containing all the particulars relating to the policy. Then he makes his calculations, and he fills in in this form the amount of the quotation which is given. That form is then filed in the guard-book, and is available for record for all time. Now, I have got the very form here which was prepared in the case of Larsen's policy [Document produced.] I have torn it out of the guard because the book was somewhat bulky. You will see the quotation there. It is given as approximately £137 10s. I told you that I really did not know how this amount had been arrived at, but on looking into the matter I can see how it was done. There is no doubt that the clerk who calculated this surrender value made the mistake of taking the surrender value on £1,000 policy instead of £500 policy; and it is a mistake that, while it was very careless, might easily arise, because our tables of surrender values are on the basis of £1,000 policy. I have a table of loan values here which I am going to put in to show you. I find that in making the calculation the clerk made another mistake as well. The approximate surrender value of a 1,000-pound policy at that time was £147 10s., not £137 10s.; so that you note he made two mistakes. Fortunately his calculations in pencil are on the back of this form, so you will be able to see them for yourselves, and see exactly where the mistakes occurred. To explain how the calcu-

lation is made: Mr Larsen's age was thirty-nine. The policy at that time had been thirteen years in force. We do not publish loan values for each individual age, but we take them for quinquennial ages. Consequently you turn to the table, and you take age 35. The loan value is shown as £116 on a 1,000-pound policy. You then turn to age 40, and you find that the loan value at 40 is £137. You can then easily arrive at the rate for age 39, which comes to £132. That is the loan value on a policy of £1,000. The loan value again represents 90 per cent. of the surrender value; therefore the surrender value is £147 10s. This is the table that I have mentioned. [Produced.]

38. *The Chairman.*] You admit, Mr. Leslie, that this leaflet which I hold in my hand is one of the company's papers?—Yes, it was.

39. It says here, in the example at the end, 'A person aged 25 next birthday may secure a policy for £1,000, payable at death, by an annual payment of £21 8s. 4d., and in the event of death occurring within twenty years the whole of the premiums received will be returned as well. Thus, should death occur during the twentieth year the amount which would be paid by the society is £1,428 6s. 8d., or, in the event of the assured surviving the twenty years, the policy will participate fully in the tontine profits.' You hold that that has been done in Mr Larsen's case?—Absolutely

40. And it goes on to say, 'and thereafter would also share in the ordinary quinquennial bonuses'—That is so.

41. Is that going on still?—It is going on.

42. *Mr Laurensen.*] Do you accept this as a document from the company [Leaflet handed to witness]?—I do not think there is any doubt about it. This must have been issued by the society.

43. It says here, "The representatives of those who die while the policy is in force, and before the termination of the tontine period, will receive the full amount assured and named on the face of the policy." That would have happened?—Yes.

44. Had Mr Larsen died during the time this policy was in force, he would have received the full amount?—Of course, and not only the full amount of the policy, but the whole of the premiums as well if he had died within the tontine period.

45. But he lived over the tontine period, and all he is offered is a paid-up policy for £177?—No, there were various other options.

46. But if he took that he could get none of the other options?—That is so.

47. I want to draw your attention to this. Here is a document, which you admit was issued by the society, giving an illustration of what happened to a man who insured himself under the tontine system for ten years. That offers in a case such as Mr Larsen's a paid-up policy for £500 at the termination of the tontine period. That is, it tells him that that would be the result of his investment. Yet Mr Larsen gets an offer of £177. In the example he is shown a case of a man getting 103 per cent. of the total amount paid in. Mr Larsen is offered £104 after paying in £333. I am comparing the circular which tempted him, I assume, to join, with what really did happen after he had joined and when his tontine period expired?—As I explained yesterday, when this document was presented, the example given here is not similar to that of Mr Larsen's.

48. *Mr Hogan.*] Why was it used as an illustration?—That I cannot tell you. I do not know that the agent presented it to Mr Larsen. Possibly he did. I do not know anything about it. The only evidence that the office has is his proposal.

49. *Mr Laurensen.*] You are manager of a society which induced the petitioner in this case to insure with it. He produces a circular which you admit has been issued by your society, and that circular gives illustrations of the benefits he will receive?—Under a policy different from his.

50. He insures under a policy to all intents and purposes similar to that, only it is for a longer period?—Pardon me, it is a different policy. Under the policy referred to in this circular there would be no refund of premiums in the event of death as well as payment of the sum assured, as would have been the case under Mr Larsen's policy. Consequently you are comparing two policies which are unlike.

51. At any rate, the discrepancy between the inducements offered there and the actual result is, to my mind, enormous, and you say to-day that the chief reason why this discrepancy has arisen, and why the people who have been induced to insure in your society have experienced such bitter disappointment, is on account of the fact that during the period interest has fallen  $1\frac{1}{2}$  per cent.—that is, from 6 to  $4\frac{1}{2}$  per cent.?—Fully  $1\frac{1}{2}$  per cent.—nearer 2 per cent.

52. One and a half per cent. on an annual payment of £22 5s. 10d. for fifteen years! You do not ask us to believe that that  $1\frac{1}{2}$  per cent. would cause such an enormous difference as the difference that we find between the prospectus and the actual result?—I explained that in addition to the drop in the rate of interest the society lost money in connection with the realization of properties.

53. Then these people who joined under this tontine system, although they apparently would not know it from the circular, rendered themselves liable to the fluctuations that might happen to the group in the tontine, and also liable to the whole financial operations of the society outside that?—Undoubtedly.

54. You say that the losses experienced by the society in the realization of properties on which it had advanced money, and the difference in the rate of interest earned, are the reasons why this thing has been of such a disappointing nature?—Yes.

55. *The Chairman.*] In this circular (Exhibit No. 7) there is one paragraph that I want to draw your attention to. After setting out the advantages to those who die it sets out the advantages to those who live, and it says, "The advantages to survivors will be very great, for the whole surplus, being divided among a diminished number, will, of course, afford a large amount to each person." Does that paragraph refer to such cases as Mr Larsen's?—Yes, that would apply to Mr Larsen's policy, because at the expiry of the tontine period he is in exactly the same

position as a person who held a tontine policy under which he was not getting a refund of his premiums. The period has expired, and the special risk covered by the society disappears.

56. You consider that the scheme worked out exactly according to the working there?—Yes.

57. Although not so well as was anticipated?—Just so.

58. *Mr Hogan.*] There are evidently two kinds of tontine policies. one kind provides a greater advantage if the assured dies within the period, and the other provides greater advantages if the assured lives to the end of the period. It is not possible that the representative of the Colonial Mutual Society represented to these people who insured that their greatest advantages would be derived in living to the end of the period and not in dying before the end of the period?

You say there are two kinds of tontines. There are not two kinds. There is only one tontine policy. "Tontine" refers to the manner in which profits are distributed. Of course, there are all sorts of policies to which the principle of tontine can be applied—whole-life, endowment, mortuary-dividend policies, and others, but there is only one kind of tontine.

59. But the common tontine system is understood to be one under which a group of people insure, and at the end of the time all profits arising from the investments of the money paid to the office, and all forfeitures and dividends of other kinds, are divided amongst the surviving insurers, and the amounts they get are greater, and consequently they receive more benefits by living to the end of the time and getting a share of those profits than their nominees or relatives receive by the assured dying within the period?—That is so.

60. That is the common, every-day tontine policy?—Yes.

61. You admit that this of Mr Larsen's is the reverse—that under it it pays better to die within the period?—No, I do not admit anything of the kind. Mr Larsen has all those advantages which you have been setting out, but in addition he had a further advantage, for which he paid—that was, that should he die during the tontine period he would get a refund of his premiums. He had a proper tontine policy, but in addition to the ordinary tontine he paid an extra premium to secure himself against his dying during the period.

62. The difference, I understand, between a mortuary-dividend tontine policy and the ordinary tontine policy is that under the former it pays better to die within the period than to die afterwards?—Well, as the results have turned out, yes.

63. Is it not possible that your agent represented that it would pay better to live till the end of the term and then share in the profits that would be divided?—I could not say what he represented.

64. *The Chairman.*] Has the society corrected the mistake made in connection with the £137 quotation?—By advising Mr Larsen?

65. Yes?—Yes, it has been corrected, but not by letter. I did not know of the mistake until Mr. Larsen came to see me in my office.

66. How long ago is it since you became aware that there was a mistake?—Some months.

67. Will you please state what the correction should be?—Approximately, the surrender value of Mr Larsen's policy at the date of that inquiry by him was £73 10s., within a few shillings.

68. Instead of—?—The amount quoted, £137.

69. *Mr. Larsen.*] Do you not think the office should be held responsible for that mistake, when they never troubled to correct it?—No, I do not think so. The society did not become aware of the mistake until comparatively recently, when Mr Larsen advised me of the quotation he had got.

P D LESLIE further examined. (No. 5)

1. *The Chairman.*] What advantage was it to the society, when it had already got these people insured, to get them to change the form of their policy from ordinary life to tontine?—No advantage whatever

2. Then, do you mean to tell me that this second canvasser who went along and did all this work in getting these people to change their policies got nothing out of it?—I am not quite certain on that point. I think Mr Larsen said yesterday that the agent did get some little bonus from him.

*Mr Larsen.* He said he reckoned he was entitled to it for putting me in the way of such a good thing

3. *The Chairman.*] At the time these things were under negotiation, Mr Leslie, did the society issue instructions to its officers to endeavour to get people to change from ordinary life policies to tontine?—No.

4. Would this change be made, then, without any authority or instruction from the society?—Quite.

5. What advantage was it, then, to the canvasser to undertake this work and to persuade these people to change their policies?—As you have heard Mr Larsen say, he evidently expected to get something from Mr Larsen out of it.

6. If that was the case, would that be a special inducement to the canvasser to grossly misrepresent the position?—I cannot say

7. *Mr. Fraser.*] I gather that under the mortuary-dividend policy there was £3 a year extra premium paid?—Yes.

8. Then there was an advantage to the society in getting an exchange?—There was really no advantage to the society, because, although we were getting a larger premium, we were accepting a greater risk.

9. *Mr Buxton.*] Agents' commissions are computed on the amount of the premium, are they not?—Not always.

10. To an extent they are?—Not necessarily. Sometimes they are computed on the sum assured.

11. *Mr Allen.*] When the tontine period was ended, this man was paying £22 5s. by way of premium, instead of £19—£3 5s. extra—for the rest of his life?—Yes.

12 Was the present value of that £3 5s. calculated, and added to the profits in which Mr Larsen shared?—That is really a question to be answered by the society's actuary. It seems to me it could hardly have been taken into consideration, because we did not know what option Mr Larsen would exercise. However, as I say, that is really a question for the actuary.

13. I should like you to get that answer, with the answers to other questions that I have written out?—Very well.

14. *The Chairman.*] I have here a document that Mr. Hogan handed in—Exhibit B in Mrs. Larsen's case. Do you accept that as a circular issued by the society [Document handed to witness]?—Yes, I admit that. I have not been asked to do so, but this is Mrs. Larsen's proposal, and I put it in. [Document handed in—Exhibit C]

*The Chairman.* Is this your handwriting at the bottom, Mrs. Larsen?

*Mrs. Larsen.* It is.

15. *The Chairman.* (to Mr. Leslie.) Will you explain the meaning of the words "modified tontine" on these proposals?—There is another system—viz., that of absolute tontine, which we were carrying on at that time. The difference between the two systems is this. Under the modified system a policy acquires a surrender value after a certain period, and in the event of the premiums at any time becoming in arrear that surrender is applied to keep the policy in force. Under the absolute system, however, directly a premium becomes overdue, and is not paid within one month of due date, the policy absolutely lapses. It has no surrender value whatever. This proposal of Mrs. Larsen's is under the modified system.

16. Under the better system for the insured?—I do not express any opinion on that point.

17. *Mr. Hogan.*] If Mr. Larsen had advised you that he and his wife had retired from the hotelkeeping business, would you have lowered their premiums then, or, in other words, taken off the loading?—Yes, subject to our usual requirements.

18. If he could satisfy you that he left the hotelkeeping business some years ago, would he get a refund of that loading?—I am afraid he would not now. We do not make it retrospective. Directly the application is made and our requirements are met, the reduction is made.

19. Although Mr. and Mrs. Larsen have been some years out of the hotel business, and have paid into your society the loading right through those years, your society would not give them any refund of that loading?—I can only say that it would be utterly contrary to our regulations to do it. If a man does not apply when he gives up the trade, how are we to know?

ANNIE ANTOINE LARSEN, Wife of Wilhelm Theodor Larsen, examined. (No. 6.)

1. *The Chairman.*] Will you make a statement to the Committee?—I cannot say a great deal more than Mr. Larsen has already told you. We took out a life policy in the first instance for the benefit of our children. Later on new agents came along from the society, and persuaded us to alter it, saying that we should be making it so much better, of course, by paying so-much more. He led us to believe that, by doing so, at the end of fifteen years we should have so-much money. Mr. Larsen and I talked the matter over, and we decided to change. Those pamphlets which have been produced, and which you have all seen, were supposed to be the correct thing, and nothing but the correct thing, otherwise we should never have changed our policies, because it would not have been any benefit to us, as we had so much more to pay. As the years went on, sickness came in and losses in business occurred, and time after time we were very near throwing it up. But I always said to Mr. Larsen, 'Try once again; pay this year's premium there are only so-many more years to pay, and then we shall receive this money.' And this is the result. I forgot to mention that Mr. Osborne, the agent, loaded me in the first place—for the life policy. I asked what it was for and he said that in hotel life it was the usual thing. I was not aware of this, but I said, 'I suppose, if it is the usual thing, well and good, but I am healthy, and do not see why you should load me, and I think the best thing would be to let the whole matter drop.' He came to me a few days after, and said, 'Mrs. Larsen, your proposal has gone in, and I have paid the first premium for you out of my own pocket.' I said, 'Oh, Mr. Osborne! why did you do such a thing?' 'Well,' he said, 'I thought I would make it easier for you.' I was rather annoyed at the time. However, I thought the matter over, and thought of my children, and then we paid. The next agent came some weeks after—a Mr. Maule. He came into the office one night and began to talk. He said, 'You insured with Mr. Osborne?' I said, 'Yes, both Mr. Larsen and I did.' 'Oh!' he said, 'I have a much finer scheme now which we are just working up in the office—a tontine racket.' At the time I did not know what a tontine was at all. 'Well,' he said, 'it is one of the finest things out if you want to make money,' and then he began to explain. He led me to believe that at the end of the fifteen years we should get wonderful things. He produced those papers which have been handed in. I, of course, at the time was ignorant, and I was 'had.' I went to Mr. Larsen and said, 'What do you say? Shall we alter this?' He said, 'Yes, if you like.' I was insured for £300, and he was insured for £500. He said, 'If you take up £500 I will take up £500 and we will go on.' And you have heard the result, gentlemen.

2. *Mr. Leslie.*] Did you say that the agent paid the first year's premium?—I do not know that he paid the whole of it, but he certainly paid the loading of it. There is another thing I might mention. I am sorry for Mr. Leslie. He was not in office then. Mr. Gibbs was in office. After all this racket was finished Mr. Gibbs came to visit the district. He came into the office, and the first thing he did was to shake hands with me and say, 'Mrs. Larsen, I congratulate you on the altering of your policy. There is no doubt that it is a fine thing that you have done—both you and Mr. Larsen.' This was from the district secretary. He is not in New Zealand now.

3. *Mr. Fraser.*] Do I understand you to say that you were led astray by that document?—Not only by the document, but by the words they used. They used far more words than there are in that document.

4. Do you remember what it was he said you would get at the end of the time?—Oh, yes! they made me believe I was going to get all sorts of things—£500 at the end, or £1,000, as the case might be, according to the profits.

5. Those were the statements of the agent?—Of the agents.

6. *Mr. Hogan.*] Would you have gone in for this policy if you had known there was that loading to be paid?—I would not have touched the society on any account.

7. Have you any reason to believe that the agent paid the loading so that you would be insured, and then when you were insured you would have to continue paying that premium?—Well, I suppose he did that just on the off chance, of course. You must remember that there is a certain amount of money put down when the proposal is made out, but then the loading came in after. That was not mentioned by Mr Osborne at the time.

[Printed matter issued by the society handed in by Mr Hogan.]

8. *Mr Buxton.*] The loading must have taken place when the policy was first taken out, if you were in the hotelkeeping business, the loading would be there from the very first?—The agent forgot to mention it, or intentionally did not mention it.

9. But when you made the change from tontine you had been paying the premium with the loading?—Yes.

10. *The Chairman.*] Was this table of payments [document shown to witness] submitted to you as the one under which you would have to pay your premium?—Yes.

11. *Mr Allen.*] Did you read it at the time?—I dare say I read it, but I do not suppose I had as much sense then as I have now

THURSDAY, 18TH AUGUST, 1910.

PETER DENNY LESLIE further examined. (No. 7.)

1. *The Chairman.*] Have you got answers to the written questions submitted to you at our last meeting, Mr Leslie?—Yes, sir

2. Will you read out the questions and your answers, please?—*Re Mr. Larsen's tontine policy:* The surrender value of the policy for £500 life insurance and the profits was given in evidence as £104 6s. Question No. 1: What was the surrender value of the life-insurance policy for £500 at the time of the conclusion of the tontine?—Answer £88 9s. Question No. 2: What was the amount of profit due on account of the tontine to Mr Larsen at the above time?—Answer: Cash value, £5 3s. Question No. 3: What was the surrender value of the tontine profits due to Mr Larsen?—Answer: £15 17s. Question No. 4: If Mr Larsen had continued a 500-pound life insurance on the usual terms, what would have been the accrued bonuses and the surrender value of the same at the end of a period equal in length to the tontine period in this case?—Answer: Cash value of accrued bonuses, £10 14s. Question No. 5: What would be the present value, at the end of the tontine period, on Mr Larsen's life, for the remainder of his life, of the difference between what Mr Larsen would have paid under an ordinary policy—namely, £19 per annum—and what Mr Larsen is paying as a result of selecting the tontine—namely, £22 5s. 10d.? When the tontine period ended, Mr Larsen would be paying £22 5s. 10d. for the rest of his life to insure £500 at death; had he continued an ordinary policy, he would have had to pay £19 per annum: was the value of the difference, £3 5s. 10d. per annum, for the remaining period of Mr Larsen's life, assessed, and the then value of that annual payment added to the profits that were divided amongst the tontine-holders of that particular group? In other words, did Mr Larsen get, at the end of the tontine period, any value for the extra payment of £3 5s. 10d. for the rest of his life, or will Mr Larsen get at any time any such value for his extra annual payment?—Answer: This question implies that the member paid £3 5s. 10d. per annum more for a tontine policy than would have been charged for an ordinary policy. This is not so. In my evidence I showed clearly that the rate of premium charged was the same for a policy under which the profits were tantined as it would be for a policy under which the profits were allotted on the ordinary system. The extra charge of £3 5s. 10d. was to cover the special guaranteed mortuary dividend risk under which the society agreed to refund the whole of the premiums paid in the event of the member's death during the tontine period. An extra premium having been charged for covering this special risk, no allowance for same was made in the amount of the cash value of the profits allotted to the policy at the expiry of the tontine period. The premium shown in the policy is payable until death. The extra premium charged for covering the risk of having to refund all premiums paid if the member died during the tontine period was based upon the assumption that premiums would be payable until death, and not merely until the expiry of the tontine period.' In connection with this reply to question No. 5, I may say, as I said previously, that it is really a question that should be answered by the actuary. I have given you my personal opinion on the matter, but I have communicated with the society's actuary in Melbourne to get his official reply. If you would allow me, I should like to correct evidence that I gave formerly. Upon reviewing my evidence I saw that I had made a slight mistake in reference to the rating-up of Mr Larsen's policy. I had to make the calculation very hurriedly, and in doing so I unfortunately quoted the rating-up of Mrs. Larsen's policy instead of Mr Larsen's. I quoted the loading of Mr Larsen's policy as £3 17s. 6d. per annum, instead of £6 4s. 7d. per annum. The total loading in the fifteen years would therefore amount to £93 8s. 9d., instead of £58 2s. 6d. When giving evidence on this point I pointed out that in contrasting the amount of the surrender value at the end of the tontine period with the amount paid in premiums, no allowance whatever could be made for this loading.



No allowance was made by the office whatever. Mr Larsen thus gets no consideration for that extra amount of nearly £100 that he paid in the fifteen years. There is one other point on which I should like to speak—in reference to Exhibit No. 4. I had no recollection, when this pamphlet was submitted to me, of ever having seen it before, because it is about twenty years since we were issuing them, but I admitted it to have been issued by the society. If you will look at this pamphlet you will find that it gives the actual results achieved by another office on a policy of £2,000, payable at death, with the profits continued for ten years. Mr Larsen in his evidence said that he was guided very largely—in fact, wholly—by this pamphlet, that it was on those representations that he was induced to take out this policy. Now, Mr Larsen's policy was for £500. It is fair, therefore, in making a comparison, to take one-fourth of the estimate given here. Dividing it by one-fourth, the result that Mr Larsen might expect would be £282, yet Mr Larsen told us that the agent told him he would get in profits £1,000 and a paid-up policy of £500. I say, therefore, that his evidence is absolutely inconsistent.

3. What you mean is that Mr Larsen's anticipations have not even the support of the pamphlet?—They have not. I was asked if I could put in a prospectus relating to tontine policies. I told you that I was not quite certain whether I had one. I find, however, that I have one relating to this particular form of policy that Mr Larsen took—a mortuary-dividend policy—and I have pleasure in putting it in. [Document handed in.]

4. *Mr Hogan.*] With regard to the pamphlet, Exhibit No. 4, are you prepared to say that Mr Larsen would get 103 per cent. of his premiums, which this illustration shows here, under Settlement No. 1?—No, I am not prepared to say that.

5. Are you prepared to say that under this same illustration, method No. 2, Mr Larsen would get 237 per cent. of the premiums that he paid in?—No.

6. Are you prepared to say that under another method here, at the end of the time, Mr Larsen's return would be a fully paid-up policy totalling more than the original amount he would have got if he had died within the period?—No.

7. *Mr Buxton.*] You do not mention in this pamphlet the name of the office that achieved the results set out?—I really do not know which office it was.

*Mr Richardson* (Government Insurance Commissioner): I think it is an example taken from the experience of the Equitable Office of the United States.

*Witness.* At the close of my evidence on the first day Mr Hogan asked me whether my society had sent Mr Larsen a bonus certificate for £25 recently, and I said "Yes." He made no further comment. I should like to ask Mr Hogan through you, Mr Chairman, why he asked that question.

*The Chairman.* I do not think I can ask a member of Parliament to answer a question like that. It is quite open to you, if you have given such a payment, to state why you did it.

*Witness.* The reason why I mentioned the matter is this: Mr Larsen spoke to me about this £25, and said, "Oh, yes! the society gave that as a sop." I want to show that this bonus that was given to Mr. Larsen quite recently was an exactly similar bonus to that given to every policyholder in the society whose policy was entitled to participate. An investigation into the society's affairs was made for the quinquennium ending the end of last year, and the results showed that the position had improved so immensely that we were able to give very much better bonuses. Mr Larsen participated in those bonuses on exactly the same basis as any other policyholder.

8. *The Chairman.*] Was this paid in cash?—No. It is a reversionary bonus.

9. *Mr Richardson.*] Was it a retrospective bonus—relating to the period about which Mr Larsen is complaining?—It related to the past quinquennium only.

10. *Mr Allen.*] When did the tontine period end?—In 1908.

11. Then a part of the quinquennium was during the tontine period. He had not got to the ordinary policy?—No.

12. Did he get a bonus, then, on the tontine period?—Yes.

13. Did all the other tontine-policy holders whose tontine policies had run out during that five-years period get the same advantage?—Yes.

14. *The Chairman.*] Then, would those people who closed their connection with the society during the period receive anything?—Only those would participate whose policies were still in force.

15. *Mr Fraser.*] This £25, then, was paid in conformity with the practice of the society and in accordance with its tables, and not as a special sop to Mr Larsen?—That is what I contend.

*Mr Hogan.* There is no suggestion that it was a sop to Mr Larsen. I did not intend that to be inferred. I wanted to ascertain if Mr Larsen was still insured. I should like now to know under what system Mr Larsen gets this £25 bonus. It appears that he gets that bonus on five years, three of which were under the tontine policy and two under the ordinary one.

16. *The Chairman.*] I suppose, Mr Leslie, that each policyholder is entitled to a share of all profits that are available under his particular form of assurance?—That is so.

17. *Mr Allen.*] I understand that Mr Leslie says the principle is that they are to participate according to the character of the policy. For two years this policy was an ordinary policy, receiving the ordinary bonuses, and for three years of the five it was a tontine policy, entitled to tontine benefits, but not to bonuses. Has the society given to this man and to others not only the benefits of the tontine during the three years, but also the benefits of bonuses for five years?—I explained to you previously how the continued profits were allotted. At the end of every five years the profits are ascertained for this purpose, but the policies are not split up. The same amount is allotted to each. But, in addition, the tontine policies are credited with their share of the profit arising from deaths, lapses, and surrenders over that period. They get that in addition to what the ordinary policyholder gets. For the last quinquennium, of which I am speaking, every member



of the society was entitled to participate in that bonus at the rate of £1 per cent. per annum—the ordinary policyholder and also the tontine-policy holder. Consequently we are perfectly right now in giving the tontine-policy holders that bonus.

JOSEPHUS HARGREAVES RICHARDSON, Government Insurance Commissioner, examined. (No. 8.)

1 *The Chairman* ] We shall be glad to hear you, Mr Richardson?—I am quite prepared to-day to answer to the best of my ability any questions asked me, but I should like to premise what I have to say by explaining how the matter occurs to me. I have carefully read through the evidence and the exhibits you sent to me, and it seems to me that the position resolves itself into this: whether these estimates—which I understand are admitted by Mr Leslie to have been of a very highly coloured character—are part of the contract. I understand the Courts here have held that estimates of the kind are not part of the contract, and therefore Mr Larsen has no legal claim. Indeed, in this particular policy it is provided that the decision of the Court shall be acted on by the Colonial Mutual Society. Mr Larsen has appealed to the Court, and the Court has held that these estimates are not part of the contract. There are numbers of decisions on very similar lines in America, especially in connection with the Equitable Office, and I believe there are some in England. As Mr Larsen has no legal claim, I do not see that the Committee can give him any

2. What we are trying to do is to find out, if we can, what is the equitable position. We know what the legal position is, because we have been informed already that the matter has been dealt with by the Courts. The man appeals to Parliament upon the equitable aspect of the matter, as to whether he is entitled to any redress?—I understand, Mr Chairman, that you want to know, probably, something about the history of the tontine system, and I have prepared some rough notes here which I might read to you:—

The tontine system of life assurance appears to have been introduced in the United States by the Equitable Life Assurance Society about 1871, and the scheme was soon adopted by other leading American companies.

The first tontine plan was what is known as a full or absolute tontine. Under this system policyholders who could not pay their premiums, or omitted to do so, on the due date were not allowed any surrender value, or to pay the premiums subsequently, but the insurance was absolutely forfeited; while the sum assured only, without bonuses, was paid to the representatives of those who kept their premiums paid up but who died during the tontine period. No profits were to be divided until the end of the tontine period, and when this expired it was anticipated that large extra benefits would accrue to the survivors from the bonuses of those who died, and the forfeited surrender values of those who failed to keep their premiums paid up during the tontine period.

Extravagant estimates of the probable profits to be distributed were issued by the various companies undertaking this class of business. The estimates issued by the Equitable were based on the assumptions that 6 per cent. interest would be realized by the society on its investments during the next twenty years, and that the expenses of management would only amount to 12½ per cent. of the premium income, but the actual expenses increased steadily from 17·3 per cent. in 1871, when the calculation was made, to 25 per cent. in 1890, and in 1908 stood at 19·8 per cent.

The results, therefore, although larger than the usual bonuses, were considerably less than the estimates—*e.g.*, at age 37, whole-life assurance, tintined for 20 years—estimated cash value of £1,000 and bonuses, £1,135, actual result, £751 and these results were still further reduced in subsequent tontines by the reduction in the rate of interest earned.

The hardships occasioned by the whole insurance being declared void if the premiums were not paid on the due date led to the introduction of the modified tontine system. Under this system paid-up policies or surrender values were allowed, and the tontine related more to the bonuses than to the sums assured.

The profits under the modified plan would therefore be less than under the original system; but, notwithstanding this, the bonuses under the full tontine system were put forward by various companies as estimates of the probable results under the modified system. Actions by disappointed policyholders under both systems of tontine have been fairly numerous, but, so far as I am aware, have all resulted in favour of the companies, and the Courts have considered them not bound by their estimates, notwithstanding the gross exaggeration.

The Equitable Life Insurance Society extended its business to New Zealand in 1884, and the New York Life Insurance Company commenced business here about 1886, and both companies made a great feature of tontine policies.

The Colonial Mutual commenced tontine insurance about 1884 under both systems, “absolute tontine” and “modified tontine.” The estimates of the probable profits used for canvassing purposes were extremely exaggerated, and the circular handed in by Mr Larsen is very misleading, as the example relates to a whole-life policy with premiums payable for *ten years only*—*viz.*, at the end of ten years the policy is free of premiums. This form of policy under the American system of distribution has a very high rate of bonus, and yet, according to the circular, ordinary tontine policies (*viz.*, with premiums payable through the whole of life) at the end of fifteen or twenty years are led to expect *even larger results*.

In the case on which W. T. Larsen’s petition is based, he was thirty-nine at time of insuring, the reversionary bonus on £500 for fifteen years was £24, cash value of bonus £15 17s., while the estimate at age of forty for a whole-life policy for £500 after fifteen years was £128 4s. 7d.

The prospectus says, "The following pages contain estimates of the probable results of modified tontine policies based upon the published experience of offices transacting this class of business. The amounts are not guaranteed, they are, however, calculated on actual experience for a number of years, *and, even if the results should fall slightly below the estimates*, they will certainly be more favourable than could be looked for in any other form of policy."

When the paid-up policy *exceeds the original amount of the assurance*, a certificate of continued good health from one of the society's medical officers may be required before granting the member liberty to elect this mode of settlement. Mr. Larsen's policy is one securing the sum assured and a return of all the premiums paid *in the event of death within fifteen years*, but he has evidently been allotted the same bonus as ordinary tontine policies, and they are all equally short of the estimates.

There was little chance of these estimates being realized, but the position has been made worse by the reduction in the rate of interest, losses on investments, and the high rate of the expenses of management.

The rate of interest on the mean funds of the Colonial Mutual was reduced from £5 15s. 1d. per cent. in 1891 to £3 16s. 9d. per cent. in 1907, and is now about £4 3s. 3d. per cent.

In order to meet the demand for tontine insurance, the Department opened two—one in 1887, which was wound up on the 31st December, 1900; and the second in January, 1891, which will be wound up at the close of this year. *In connection with these tontines, however, no estimates were issued or used in any way.* The only difference between tontine and ordinary policies in this Department is that the bonuses are not negotiable until the winding-up of the tontine; but in all other respects they enjoy the same privileges—the ordinary bonuses are allotted to the policies every three years, and the extra bonus out of the tontine accumulations at the close of the period.

The ordinary bonuses on £500, thirteen years in force, came to £84 9s., and the extra to £21 3s., or £105 12s. in all.

There are several tontines conducted in a semi-private manner by the agents of the National Mutual Life Insurance Association. They are effected by taking out policies in the National Mutual, and assigning them to trustees. The rules differ slightly in the different tontines, but in some only the premiums with interest are paid in the event of death, and the sum assured remains to swell the share of the survivors.

I may say that, so far as I am aware, with the exception of the schemes associated with the National Mutual Life, no office transacting business in the colonies, whether American or colonial, is undertaking tontine business at the present time, so this question is not such a burning one as it would be if the business were still being carried on on the lines of extravagant estimates. I am quite prepared to answer any questions.

3 *Mr Fraser*] You said in your letter which we had read this morning that your office had never issued any policies similar to that issued to Mr. Larsen?—That is so. The Government Department has never issued a mortuary-dividend policy.

4. Do you know of any other office that issued such policies?—We do not know of any in the colonies.

5. And there are none now being issued like that?—There are not, so far as we are aware—in fact, we are pretty certain there are not.

6. *Mr Allen*.] What is your opinion with regard to this kind of policy? Is it wise to allow it to be launched unchecked upon the community, or do you think that by legislation or some other means there should be some check? Would it be wise to prevent by legislation any future issue?—I do not think so, as regards tontine policies where the bonuses only are tontined, if any company wants to transact that class of business; but I think that where the sum assured is tontined, and a man stands to lose the whole sum assured, it is hardly right.

7. Do you think it is necessary for legislation to be introduced to prevent it?—I do not think the conduct of the business by the companies now renders legislation necessary.

8. *The Chairman*.] Do you think it desirable that there should be legislation passed by which a check could be placed upon any wild-cat schemes of insurance that might be launched at some future time—such a check, I mean, as submitting a proposal to the Government for its approval before it was allowed to be launched?—Well, of course, the Government might pass legislation making some provision that forms of policy should be approved by the Government. The tendency is very much in that direction now under the Armstrong laws in New York, and I believe the policy-conditions have to be of a uniform character.

9. *Mr Allen*.] Do you mean that to apply to any life-insurance policy, whether tontine or otherwise?—Yes. Then, of course, if legislation is to be passed you will have to decide as to how these estimates are to be dealt with—as to whether they are to be part of the contract. It gets back to that every time—as to whether an estimate that is issued is part of the contract. The whole of this trouble in Mr. Larsen's case comes back to that.

10. Does this trouble of estimates arise now with ordinary policies?—I do not think so. Of course, agents, I suppose, do their best to get the risks.

11. Does the Government Life Insurance Office do that sort of thing?—I do not know whether our agents are better than others, but if we find an agent dishonest, and making false representations, we dismiss him.

12. Are there any pamphlets issued that are misleading—I mean, by any companies now?—Not that I know of. No pamphlet is ever issued by our office without my having seen it.

13. I mean, are misleading pamphlets issued now with regard to ordinary policies, by any office?—No, I think not. The companies behave in a fair manner, I think.

14. *Mr. Buxton.*] You say that the tontine period in the Government Life Department expires during this year. It is the last tontine, is it not?—Yes, we have only had two.

15. No tontine business is now being taken?—No.

16. I think the National Mutual Association are carrying it on?—I think the National Mutual's scheme is more associated with trustees outside. I do not think the association itself conducts the business.

17. *Mr. Hogan.*] You said that Mr. Larsen had appealed to the Court. He has not. Others have?—I was speaking generally.

18. Regarding the issue of these leaflets, do you think it would unnecessarily handicap companies if they were compelled by legislation to make these leaflets part of the contract? Do you not think it would make them careful in their calculations?—I do not see any harm in that, but it seems to me there would be difficulties. You cannot foresee what is going to actually occur. Nobody can say what the rate of interest is going to be. He is a very wise man who can say what the mortality will be.

19. If legislation were in operation, would not a company be compelled simply to put the proposal before a proponent, without working out any tables or estimates, or showing any highly coloured examples?—You cannot dry-nurse everybody, you know. If you had to dry-nurse a man at every turn, the trouble would be endless.

20. We do not want to dry-nurse any one, but what we do want is to prevent what you yourself admit is taking place—people being misled by highly coloured examples?—That really means that you would like an estimate to be part of the contract. It gets back to that, does it not?

21. Well, yes?—Well, I do not think it is possible. All a company can do is to show what its experience has been in the past, and what it is probable will happen in the future. But to tie itself down to certain things happening as they had happened in the past would be impossible, I think.

22. You stated, I think, that your Department issues estimates?—No, I have always refused to do so.

23. Then the Department does not issue any of these examples of how policies work out?—We might issue examples relating to ordinary policies. I do not see any objection to that. They are simply something that is based on the experience of the past. I drew up our original tontine, and it was more on the lines of book-keeping. We have always refused to issue estimates, because we were perfectly satisfied that the American tontine estimates could never be realized. The agents pressed us very much to do it, but we always refused, on that ground.

24. Are you prepared to state that all the literature issued by your office could be taken as part of the contract?—I am not prepared to say that. We do our best to make the literature as clean as possible, and that is all we can do.

25. You said that you do not consider the methods at present followed called for legislation. do you, then, think the people are adequately protected against any proposals that may be put before them by any insurance company that cares to start business in New Zealand, or is now in business here?—I think they are as well protected in this direction as they would be with respect to any ordinary contract that they might enter into. It gets back to "dry-nursing" the man at every turn.

26. You know what has happened in America. do you not think it would be advisable to prevent such a thing happening in New Zealand?—The trouble that has happened in America has been mainly in connection with the funds and the administration. I do not think it has been so much in the direction you indicate—although, of course, there has been a good deal of extravagance in the statements of what was going to happen with regard to bonuses.

27. *Mr. Buxton.*] With regard to the New York Life Insurance Society, do they not issue a policy in which they state each year the position—that is to say, surrender value and bonuses added right from the commencement to the end?—I could not say.

*Mr. Morris Fox* (Government Actuary): They do. Many American offices do.

*Witness.* The bonuses shown would not be on a very liberal scale; they must protect themselves. In justice to the Colonial Mutual Association, I should like to say this: I think their original estimates were based on these American estimates, and they, to a large extent, "fell in." I do not think they were entirely to blame, but they were to some extent. They should not, in my opinion, have adopted these estimates without satisfying themselves.

*Mr. Leslie.* You said that I admitted that those estimates were highly coloured. I have not admitted anything of the sort. What I do say is that at the time those estimates were issued the society was fairly entitled to suppose that it could carry them out, and it was only owing to the drop in the rate of interest that we were unable to do so. Some member of the Committee referred to "wild-cat" schemes. I object very strongly to remarks of that sort.

*The Chairman.* I used that phrase, but I did not refer to your particular scheme.

28. *The Chairman* (to witness).] The complaint of this petitioner, Mr. Richardson, is that he has paid in premiums a total sum of £334 7s. 6d., and he has been offered in full settlement of his claim £104 6s.—less than the premiums paid by £230 1s. 6d. From your study of the case, do you think that has been a fair result on the working of the society?—I should not like to say. It seems to me it must resolve itself into a question of the surrender values adopted by the society. No doubt these are based on their actual experience. they know what they can afford to refund.

29. From your own experience in the Government Life Insurance Department, would you regard that as so disappointing a result to the man as to suggest that he had not received fair treatment?—I should not like to say that. But I can say this: that those surrender values—those returns—are low as compared with ours.

30. Can you give any idea as to how much lower than yours they are, roughly?—I should not like to say without going into the matter.

31 Mr Leslie stated that one reason for the very disappointing result was the reduction in the value of money; that, on account of the fall in the value of the society's securities, not only had they earned a less rate of interest, but they had had actually to fill the gap from profits. Is that a fair reply to the change of position that is shown between the time when the proposal was made and its working-out at the end of the tontine?—I think that, to some extent, it is a reasonable explanation. I know that the society made considerable losses on its investments, especially in Australia, and these losses would have to be made up from somewhere. I presume they would try to apportion the losses equitably, as far as possible.

32. Are not the reserves set up for the purpose of meeting such a case as that in question? Or is this the theory that the reserves should be kept intact, but that if they are called upon, profits should be withdrawn for the purpose of replacing the reserves that have been taken to meet the losses?—I should like to explain the matter in my own way as it presents itself to me. When an office begins to find some of its securities shaky, it has to set aside out of profits sufficient to make up the deficiency. This is what a prudent office would do. Before distributing any profits they would have all securities carefully valued. Then, if they found that the securities were not worth the book value, an amount to meet the deficiency would be set on one side out of the profits, and that would be a reserve. They could either write down the securities by that much, or set that much on one side. If they took a certain amount out of profits, all the people who participated in the profits must suffer *pro rata* in some way. It must get back to them.

33 Supposing the loss has been spread over ten years, and you have two divisions of profits, the loss would have to be made up during the last five years?—It may. If the profits had been divided up to a certain period and the securities not been carefully gone into, the loss would have to be borne by those policyholders who were concerned in the last five years.

34. *Mr Allen.*] This example given here in this leaflet is this an actual example of what actually did take place?

*Mr Leslie:* It is shown there clearly, I think, that those are results that were achieved by another office.

35. *Mr Allen.*] Do you say so, Mr Richardson?—We understand that they were results of a particular kind of policy in the Equitable Office of the United States.

36. They are no more misleading, are they, than what you issue?—I should not like to say that. We do not, however, issue any estimates.

37 But they are actual results?—Of a particular kind of policy—a life policy limited to ten payments, and there is no doubt that you cannot compare that kind of policy with all sorts of policies.

38. But it is an actual result, and is just the same as what you do?—This might relate to policies of the same nature, not to all sorts of policies. I did not want to introduce it, but in order that the position may be explained I suppose I must. Twenty-two years ago we had a little friction with the Colonial Mutual Society. We found they were cutting into us a little, and we went into the matter of this particular kind of policy. This particular policy is one of the Equitable Society's, we think, and the Colonial Mutual Society have based this pamphlet on that Equitable policy. Well, now, here are the actual results. Age 30, premiums paid during the ten years, £223 6s. 8d., sum assured, £1,000—

39. What is this you are quoting from?—It is a pamphlet that we issued twenty-two years ago, showing from our point of view that these estimates issued by the Colonial Mutual Society could not be realized.

40 Surely that is an actual result issued by them in that pamphlet? Is it an estimate or an actual result of, say, the Equitable Society's work?—We think it is based on actual results. But I should like to say that this policy is a very misleading one to use as an example, because it relates to a whole-life policy with premiums payable for ten years only.

41 It says so on the circular, does it not?—Yes. This form of policy, under the American system of distribution, has a very high rate of bonus, and it is unfortunate that the Colonial Mutual Office should have adopted that particular policy. It has a high rate of bonus on account of the limited premiums.

42. But what I want to get at is that it is an actual result?—Yes.

43. *Mr Reed.*] Is that circular that you have there and are referring to one that was issued by the Government Life Department?—It is the only copy we have. It has a lot of confidential stuff in it. I am simply using it for the purpose of illustration.

44. *The Chairman.*] Can you let us have it?—I do not care about giving it in. It includes modified tontine estimates issued by the Colonial Mutual Society, and shows the actual results that we worked out ourselves from their figures. If you insist, I shall have to give it, of course.

(The Committee deliberated in camera. On the witnesses being readmitted—)

45. *The Chairman.*] You were proceeding to refer to some figures that you have, Mr Richardson?—Yes.

46. The Committee now wish to ask you whether you have any pamphlets or tables that were issued by the Colonial Mutual Society in connection with their tontine proposals taken about the time that Mr Larsen's case originated and, if so, whether you will produce those pamphlets, together with the criticism by the Department as to the probabilities of the estimates being realized. The Committee wish to get all the light they can upon the pamphlets issued by the Colonial Mutual Society at the time this case originated?—I have no objection to putting in any pamphlets issued by the Colonial Mutual Society that we have got. I should like to read from this circular issued by the Government Office. We were at that time competing with the Colonial Mutual Society, and there was a good deal of difficulty with them.

47 *Mr Fraser* ] If you would read from that circular the portions that you think pertinent to the Colonial Mutual Society and what is before us, when we have heard them we can ask you to go further if we desire you to do so?—Well, in this circular we discussed the Colonial Mutual Office very freely

48. *Mr Allen.* ] What is the date of it?—The 29th March, 1888 The material part seems to me to be in the actual results of the Colonial Mutual Office. I have no objection to reading this part. It is a comparison of the actual results of the Colonial Mutual Society with their modified tontine estimates.

Both offices issue tontine policies of the same description The policies are the same as ordinary ones, with the exception that the profits are tontined—*i.e.*, a fund is formed of the bonuses of those policies which become void by death or discontinuance, which is divided amongst the survivors at the end of the tontine period. There is not the remotest possibility of the values of whole-life tontine policies at end of tontine period being nearly equal to the full sum assured.

Another reprehensible practice of that society [the Colonial Mutual] is in connection with their tontine estimates. Although charging lower premiums than the Equitable of the United States, they publish the estimates of the latter society as results which they will be able to realize themselves. The following statement will show how much likelihood there is of such being the case, especially when the probable fall in the rate of interest is taken into consideration :—

*Colonial Mutual's Actual Results for 10 Years, compared with its 15 Years' Modified or Semi-Tontine Estimates*

Actual Results. (See Page 19 of Quinquennial Report.)					Modified Tontine Estimates. (See Page 12 of Prospectus.)				
Age.	Premiums paid during 10 Years.	Amount assured.	Class of Policy.	Cash Bonus in 10 Years.	Age.	Premiums paid during 15 Years.	Amount assured.	Class of Policy.	Estimate, Cash Bonus in 15 Years.
30*	£ s. d. 223 6 8	£ 1,000	Life	£ s. d. 29 0 0	30	£ s. d. 340 12 6	£ 1,000	Life	£ s. d. 177 12 6
40*	303 15 0	1,000	"	35 2 6	40	469 7 6	1,000	"	256 9 2
50*	430 16 8	1,000	"	38 9 2	50	707 10 0	1,000	"	427 19 2

\* These policies were practically tontine, as no division was made for ten years.

(If a policy for £1 000, at age 50, in 10 years produced £38 9s. 2d. cash bonus, will a policy for the same amount, at the same age, in 15 years produce £427 19s. 2d.?)

On page 11 of the Colonial Mutual's prospectus are these words 'The following pages contain estimates of the probable results of modified tontine policies, based upon the published' [see note below] experience of offices transacting this class of business. The amounts are not guaranteed.'

NOTE.—No office in the world has ever completed a semi or modified tontine period. Semi-tontine policies were first issued in 1883.

Mind you, the actual results were non-tontine, because at that time they had no policies sufficiently long in existence to bring out the experience of an actual tontine.

49 *The Chairman.* ] Would the tontine improve or reduce any profits?—The tontine would improve the bonus, naturally In our own office it means an increase of about 25 per cent. in the bonuses.

50. *Mr Leslie.* ] With regard to those results and estimates, were the premiums paid the same in both cases?—No.

51 How does the difference arise?—One is for fifteen years, and the other for ten " Modified tontine estimates Premiums paid during fifteen years. Your estimated results for fifteen years are compared with the actual results of ten years. Supposing that your actual bonuses were increased by a half to make up the extra five years, roughly—that would mean that at age 30 the bonus was £44, as compared with the estimate of £177 At age 40 the bonus would be about £47, as compared with £256 estimated, and at age 50 the bonus would be about £57, as compared with £427

52 *Mr Allen.* ] Where did you get the estimates of the Colonial Mutual Society from?—From one of their prospectuses.

53. *The Chairman.* ] Have you any pamphlets issued by the Colonial Mutual Office dealing with the particular class of policy that Mr Larsen went in for?—I could not say without looking up.

*Mr Fox* That one that Mr Leslie put in is one. The only other one that we have in connection with it is called 'Tontine Investment Fund Policies.' That is an absolute tontine, which they discontinued.

MORRIS FOX, Actuary, Government Insurance Department, examined. (No. 9.)

1 *The Chairman.* ] That pamphlet does not deal with this case?—No. This one [produced] is a prospectus that was issued about that time by the Colonial Mutual Society

2 Would you be kind enough to take Mr Larsen's case, and show us from the society's prospectus an analogous position, according to their tables?—Yes. This is the Colonial Mutual Society's modified tontine estimates—estimated results of ordinary life policies.

3. *Mr. Fraser* ] Not tontine policies?—But under Mr Larsen's policy the profits were allotted on the same basis as with an ordinary life policy Mr Larsen's age was 39 Taking

age 40, on a 1,000-pound policy the total annual premiums paid in fifteen years would be £469 7s. 6d., cash value of total policy and bonuses, £508; cash value of the bonus, £256 9s. 2d., equivalent value in paid-up policy, £960, or £1,000 at death and premium reduced to £1 18s. 4d. [Book handed in.] This is a book containing various colonial companies' prospectuses, issued fifteen or twenty years ago.

*Mr. Richardson.* That is the same as I was reading, only it is given in a different form.

4. *Mr. Allen.*] If you had had to make up a similar table to that, Mr. Fox, what would have been the difference?—I should not have made it up like that. I wrote that circular that Mr. Richardson has read from, and you will notice that, although it was issued in 1888, I there referred to the probability of a decline in the rate of interest. The people who were responsible for making those estimates should have been prepared for a fall in the rate of interest, and should not have estimated on the basis of its keeping up. The rate dropped very rapidly in the next few years—altogether over £1 10s. per cent. But, of course, they could not foresee the falling-in of the Melbourne land boom a few years afterwards. That affected the Colonial Mutual more than it would have done many societies. If I had had to make up those figures, I should not have based them on 6 per cent. interest. Mr. Richardson was asked about the Department issuing estimates. As he said, we never have issued estimates in the ordinary sense. When we have given estimates of any kind—for instance, when a policyholder has wanted to know what his position would be in so many years—we have always given a most guarded estimate—a distinct underestimate.

5. *The Chairman.*] Have your estimates invariably worked out on the conservative side?—I know of none that has not.

6. *Mr. Allen.*] With regard to that table, do you think that that was a fair table, assuming that the rate of interest had remained as it was, Mr. Fox?—No, I do not think so even then, for the simple reason that if the rate of interest had kept up at 6 per cent. it could not have given those estimated results. The expense-rate would have had to be kept very much lower.

7. You think it was an exaggerated estimate—a misleading estimate?—Yes. We said so at the time. But I do not wish to say anything about the estimates or the figures, for, although, as Mr. Richardson has pointed out, we knew that the estimates put forward were not likely to be achieved, I think the point that is exercising the minds of members of the Committee most is with regard to legislation in this matter. I wish to put on record my opinion that no legislation is necessary, for the simple reason that all the offices that issued rosy estimates in the past will never be likely to do so again—they have had such a shock from their experience. The Colonial Mutual Office is having a great deal of trouble through it. Ten years ago our tontine fell in, and, although we have never issued any estimates, agents are so prone to colour matters—without any estimates being given to them—that policyholders had been led to believe that they would get more than they did get. Therefore trouble naturally arises on the winding-up of a tontine, even without overestimates having been made. Therefore I think that no office will be likely to err in future in giving estimates. No office in Australia now as far as I know, gives estimates.

8. *The Chairman.*] Do you not think it possible, Mr. Fox, that in America, or Australia, or somewhere there might be a reckless company formed that might wish to start business in New Zealand, and would represent what apparently was represented in this case, and induce a large number of people to put their money in, and these people would find afterwards that the rosy anticipations were not realized?—It is possible.

9. *Mr. Fraser.*] There are a good many companies doing life business in New Zealand, are there not, Mr. Fox?—Yes.

10. If a new company were to start and make rash estimates of that kind, do you not think that the companies already in existence would take care to make public the state of affairs, and so save the public from being led astray?—Yes.

11. That is why, I suppose, you assume it is not necessary for legislation to be passed?—Yes.

12. You see the difficulty if legislation were attempted, in restricting people from doing that class of work?—Yes.

13. I understood you to say that one of the reasons why the anticipations of the Colonial Mutual Society were not realized was because they had not allowed sufficiently for a fall in interest. There was also adduced the fact that they had suffered losses in consequence of depreciation in property. Do you know whether their loss from depreciation in the value of securities was greater than the loss from the fall in interest? They have written off £225,000 from the time of the Melbourne land boom till last year.

14. That was a loss which no man could foresee, was it not, Mr. Fox?—Yes.

15. Therefore part of the discrepancy between their anticipations and realization was owing to circumstances which they could not possibly have foreseen?—Yes.

16. *Mr. Reed.*] What do you think, Mr. Fox, would be the objection to legislation being introduced insisting upon the review of pamphlets, such as that issued twenty years ago, not only with reference to tontines, but any other new scheme that might be evolved—in America or elsewhere?—I see objections. Who is going to review the pamphlets, for instance? The able managers and actuaries of the A.M.P. Society would be subjected to an unnecessary indignity if they had to be examined by myself or some one else.

17. Do you think that the directors and actuaries of the Colonial Mutual Society would have suffered an indignity had they had that pamphlet reviewed by somebody twenty years ago?—I wonder if the people in the Government service would be able to review it! I think there would be many difficulties in the way of every pamphlet put forward by any life office having to bear the Government stamp. If you did it with one, you would have to do it with all. It would hamper the administration of a life office enormously to subject them to that.

18. *The Chairman.*] You published a criticism of this particular scheme for circulation, Mr. Fox?—Yes.

19. Do you think it would have been a bad thing if at that time there had been power for the State to say, "We cannot allow this proposal to be laid before the public, and people induced to go into the scheme"?—I think the results have proved that if any action of the Government could have prevented the issue of those estimates, it would have been a good thing for all concerned. I see the good point in the suggestion, but at the same time I myself disbelieve very much in these matters being subject to Government control. I think that on the whole they are better left to the good sense of the offices themselves.

20 *Mr Hogan* ] If such legislation had been in existence, would not a lot of this trouble and disappointment have been prevented?—That question requires consideration. If I said "Yes" it would be too comprehensive. It would depend on what legislation you had.

21 If you were acting for the Auditor-General's office, and had the right by Act of Parliament to criticize proposals put forward by any company, and you were prepared to recommend to your office that certain proposals would not work out and give to the policyholders the benefits set out, and you suggested to your office that these proposals should not be allowed to be put before the public, and legislation was in operation to stop those proposals being put forward, would not such legislation have prevented a lot of trouble and disappointment?—It would.

22 If such legislation were now passed, would not the people be protected in future from such operations?—They would.

23 You said that the companies operating in New Zealand at the present time would draw attention to any improper proposals being put before the public, and consequently these proposals would not be taken up by the people. Do not your statements to-day prove that the criticism by your office of the proposals put forward by the Colonial Mutual Society at the time did not stop those proposals being taken up by the people?—Because we were doing the same business ourselves, only in another sort of way.

24. But your criticism did not prevent people from insuring under these particular forms of policy with the Colonial Mutual Society?—No, and, of course, that is a fact—that if a proposal is put forward that is wrong, it is very difficult for other offices to stop it altogether.

25. You are confident that if the rate of interest had kept up, and the Colonial Mutual Society had not suffered the losses that have been mentioned, the estimates that they put forward so many years ago could not have been realized?—I am tolerably clear about that. They would not have been fully realized even if those losses had not been incurred. I am saying that without having investigated the matter for the purpose, but that is my impression—my strong impression.

*Approximate cost of paper.*—Preparation, not given; printing (1,400 copies), £12.

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By Authority : JOHN MACKAY Government Printer, Wellington.—1910.

Price 9d.

