



Confederation Life
INSURANCE COMPANY

1971 Annual Report

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1971 ACHIEVEMENTS AT A GLANCE

	1971	1970
New Business — Premiums		
Individual	\$ 14,726,000	\$ 15,564,000
Group	17,464,000	22,314,000
New Business — Amounts		
Individual Life	565,068,000	646,411,000
Group Life	606,551,000	822,716,000
Business in Force — Amounts		
Individual Life	3,528,425,000	3,318,616,000
Group Life	4,604,777,000	4,323,596,000
Annuities and Pensions (equivalent basis)	1,157,168,000	993,883,000
Health Insurance in Force		
— Premiums	48,536,000	44,629,000
Benefits		
Contractual payments to policyowners and beneficiaries	118,460,000	117,845,000
Dividends to policyowners	21,356,000	15,347,000
Assets	929,225,000	822,407,000
Policyowners' surplus	62,094,000	60,430,000
Rate of investment income earned net of investment expenses	6.55%	6.50%

REPORT OF THE DIRECTORS TO THE POLICYOWNERS

This annual meeting marks the 100th occasion on which your Directors have presented a formal accounting to the policyowners of Confederation Life and to the public. In October we completed our first 100 years in business and started on our second. The results in this report, in effect, summarize a full century of development, and provide the foundation for a confident approach to future expansion of our services.

1971 In Review

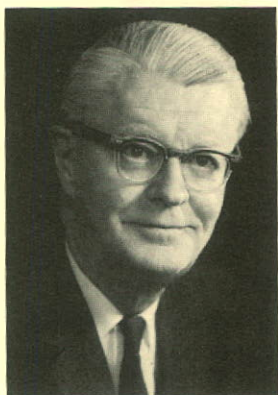
In September Dr. Claude T. Bissell, distinguished educator and former President of the University of Toronto, was invited to join the Board. His acceptance strengthens the Board's capacity to reflect, in its deliberations, the broader social consciousness required of business organizations in the 1970's.

The financial position of the company improved during 1971, principally as a result of management action to control operating costs, to restrain the exceptional growth rate of Individual sales in the United States, and to revise premium rates on Group health coverages.

The continuing program to control expenses has had the desired effect of lowering expense ratios and, during 1971, cost factors rose at a slower rate than income. In several operating areas 1971 expenses were actually less than in 1970.

In the life insurance business the sale of individual coverages reduces net income for the year in which the business is written. Under our corporate plan we have established an aggressive rate of growth which is carefully matched to a satisfactory level of net income. During the late 1960's our Individual sales in the United States grew at a rate well in excess of this objective, reducing net income below planned levels. The action taken to restore equilibrium between sales and financial results produced a temporary but marked drop in sales in 1971 and a corresponding increase in net income. Sales in the United States during the last half of 1971 returned to the rate anticipated under our corporate plan. New Individual sales in Canada, the Caribbean and the United Kingdom were higher in 1971 than in 1970.

In the Report to Policyowners for 1970 it was noted: "A continued accelerated rate of inflation and rise in the cost of health care, particularly in the United States, has again adversely affected Confederation Life and the industry. To correct this major problem your company has taken many additional and vigorous steps which should cause a significant improvement in our 1971 earnings. . ."



J. K. Macdonald, Chairman



J. Craig Davidson, President

These anticipated results have been achieved, and Group hospital, surgical and medical benefits are now contributing, according to plan, to the growth of our financial resources. This program has had the effect, however, of slowing the sales of new Group coverages in the life and health lines.

During 1971 an industry-wide trend developed towards substantial increases in long term disability claims which is felt to be largely a result of the continued high level of unemployment. A selective program of rate adjustment has been undertaken to offset the losses from this source, but the problem is not likely to be fully resolved for two or three years since some of the contracts affected stipulate rate guarantees for a limited period.

An important change in marketing arrangements occurred in the Dominican Republic and in Jamaica, where local sales and servicing companies, organized by the former resident managers, are under contract to carry out all operations formerly handled by our full-time branch organizations.

In October work began on the extension of the Home Office building immediately to the south of the present structure. A portion is expected to be available for occupancy by December, 1972. When completed in the spring of 1973 the extension will increase our Home Office space by 50 percent and should provide ample room for expansion into the 1980's.

Highlights of the 1971 Operations

- Total income was \$255,757,000, an increase of 14.6% over 1970. Of this amount, \$168,366,000 came from premiums and deposits paid by policyowners and

\$50,720,000 from income earned in the investment of general funds. In addition, segregated funds contributed \$36,671,000 in combined deposit and investment income during the year.

- Segregated funds, which are separately managed by the company on behalf of policyowners who have selected this kind of contract, increased substantially during 1971 to \$87,478,000 from \$53,893,000 in 1970. The company now has thirteen Group and four Individual funds of this type.
- Total life insurance in force rose to \$8,133,000,000 from \$7,642,000,000 at the end of 1970.
- Annual premiums from the sale of new policies amounted to \$32,190,000.
- Payments to living policyowners increased to \$107,568,000. In addition, \$32,248,000 was paid to beneficiaries. In total, benefit payments increased by 4.7% over 1970.
- An Investment Valuation Reserve of \$23,000,000 has been set up to provide for variations in the year-end value of investment holdings. Provision for this was formerly handled by writing down asset values showing the net figure.
- Assets increased during the year 1971 and now total \$929,225,000.
- Policyowners' surplus increased by \$1,664,000 and now stands at \$62,094,000.

1972 in Prospect

At the Special General Meeting held on February 18, 1972, just prior to this annual meeting, policyowners were asked to approve a transfer of five million dollars from the life to the health branch. There are two reasons for this transfer. The Canadian and British Insurance Companies Act requires the retention of a substantial level of surplus in the health branch. In addition, the adverse claims experience of recent years caused losses in the health lines.

For over two years Confederation Life has acted as an agent, along with a number of other companies, in the administration of the Ontario Health Services Insurance Plan. The arrangement has demonstrated the ability of business organizations to work co-operatively with government authorities to provide needed services. At the end of May, 1972, this joint undertaking will end when

the government takes over the full administration of the OHSIP program through regional offices throughout Ontario.

Late in 1970 your Board revised the company Statement of Policy to include provision for offering the public "financial and ancillary" services in addition to traditional insurance coverages. The many possible lines of development this opens up for Confederation Life have been under active exploration for some time, and will continue to be in future years.

Confederation Life has taken the decision to form a subsidiary management company in Canada as a means of entering the mutual fund business. Preliminary work has already started and study is currently under way to determine the best ways to market mutual fund products.

In the United Kingdom, the organization of a separate, wholly-owned subsidiary life insurance company is now in progress. The products it markets will not compete with those offered by the parent organization. The decision has also been made to form a unit trust, which is the United Kingdom equivalent to a mutual fund in Canada.

As we move into our second century we have started to diversify into lines of business related to, but not part of our traditional insurance services. We approach this development with confidence. The opportunities it opens to further identify the company with emerging patterns of social and consumer needs, will provide many new avenues for both corporate and personal growth.

 J. Craig Davidson

Chairman

President

STATEMENT OF OPERATIONS & POLICYOWNERS' SURPLUS

for the year ended December 31, 1971

OPERATIONS

Income

Premiums from policyowners
Segregated investment funds—deposits and net income
Interest, dividends and rents, less investment expenses

Distribution of income

To Policyowners and Beneficiaries
 Death claims
 Endowments matured
 Annuity payments
 Disability and health benefits
 Surrender payments
 Interest to policyowners
 Segregated investment funds
 Increase in funds necessary for future contract payments

Operating Expenses

 Service, sales and administration expenses
 Taxes and licence fees

Net income on operations before dividends to policyowners

POLICYOWNERS' SURPLUS

Balance, beginning of year
Net income on operations before dividends to policyowners
Dividends to policyowners paid or set aside
Transfers to investment valuation reserve \$23,000,000 and
 to contingency reserve \$4,000,000 less restatement of
 asset values \$24,244,765

Balance, end of year

1971	1970
\$168,366,430	\$162,205,355
36,670,891	14,646,669
50,720,369	46,278,181
<u>\$255,757,690</u>	<u>\$223,130,205</u>
\$ 32,247,674	\$ 30,786,367
9,498,881	9,776,943
9,259,537	9,030,932
40,549,892	40,018,101
21,201,468	23,112,321
3,139,626	3,533,531
36,670,891	14,646,669
35,099,161	32,549,951
37,051,282	39,566,641
5,264,508	3,958,968
<u>\$229,982,920</u>	<u>\$206,980,424</u>
<u>\$ 25,774,770</u>	<u>\$ 16,149,781</u>
\$ 60,430,146	\$ 59,400,771
25,774,770	16,149,781
(21,355,559)	(15,347,033)
(2,755,235)	226,627
<u>\$ 62,094,122</u>	<u>\$ 60,430,146</u>

BALANCE SHEET

as at December 31, 1971

ASSETS

Bonds

Stocks

Mortgage loans

Segregated investments

Home Office property

Real estate investments

Loans on policies

Cash

Interest and rents earned but not yet received

Premiums in course of collection

Other assets

LIABILITIES

Policyowners' reserves

Policy proceeds, dividends and other amounts on deposit

Segregated investment funds

Policy claims in process of payment

Provision for future dividends to policyowners

Taxes and other liabilities

Contingency reserve

Investment valuation reserve

Policyowners' surplus

Auditors' Report To the Policyowners and Directors of
Confederation Life Insurance Company:

We have examined the balance sheet of Confederation Life Insurance Company as at December 31, 1971 and the statement of operations and policyowners' surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances; the amounts required to provide for policyowners' reserves and the provision for future dividends to policyowners were determined and certified by the Company's Actuary.

In our opinion, based on our examination and the certificate of the Company's Actuary, these financial statements

Toronto, Canada,
February 1, 1972

1971	1970
\$354,485,372	\$283,734,577
39,042,058	34,521,826
287,745,662	295,521,132
87,478,837	53,893,724
7,898,336	8,063,531
49,017,699	43,041,487
66,942,468	61,577,764
6,355,976	13,945,089
11,553,940	10,325,404
9,059,878	9,093,010
9,645,008	8,689,771
<u>\$929,225,234</u>	<u>\$822,407,315</u>
\$622,809,036	\$602,518,778
57,404,647	48,899,815
87,478,837	53,893,724
36,481,161	26,607,781
18,967,938	14,893,282
15,989,493	14,163,789
5,000,000	1,000,000
23,000,000	—
62,094,122	60,430,146
<u>\$929,225,234</u>	<u>\$822,407,315</u>

present fairly the financial position of the Company as at December 31, 1971 and the results of its operations for the year then ended in accordance with accounting practices prescribed or permitted by the Department of Insurance, Canada.

Bonds and stocks are valued at cost or less, which values after deducting the investment valuation reserve, are less than those authorized by the Department of Insurance, Canada. The assets and liabilities in currencies other than Canadian are shown at book rates which approximate current rates. If current rates had been used, the surplus as shown would be increased.

Clarkson, Gordon & Co.,
Chartered Accountants

BOARD OF DIRECTORS

J. K. Macdonald

Chairman of the Board

J. Craig Davidson

President

Donald A. McIntosh, Q.C.

Vice-President

Partner, Fraser & Beatty

J. Page R. Wadsworth

Vice-President

Deputy Chairman, President
and Chief Executive Officer,
Canadian Imperial Bank of
Commerce

**Claude T. Bissell, C.C., Ph.D., D.Litt.,
D. ès L., LL.D., F.R.S.C.**

Former President, University
of Toronto

Robert F. Chisholm, O.B.E.

Chairman, Thompson Paper Box
Company Limited

Pierre P. Daigle

Vice-President, Malcolm G. MacLean
Lumber Limited
Montreal

H. G. De Young

Consultant
Fonthill, Ontario

C. M. Harding, O.B.E.

Chairman and Chief Executive Officer,
Harding Carpets Limited

Thomas E. Ladner, D.S.C., Q.C.

Partner, Ladner Downs,
Barristers and Solicitors
Vancouver

George E. Mara

President, William Mara Company
Limited

R. H. L. Massie

President, The Dominion Insurance
Corporation

H. C. F. Mockridge, Q.C.

Partner, Osler, Hoskin & Harcourt

André Monast, Q.C.

Partner, St-Laurent, Monast,
Desmeules, Walters & Dubé
Quebec

Sir Ralph Perring, Bt.

Chairman, Perring Furnishings
Limited
London, England

Ray D. Wolfe

President, The Oshawa Group
Limited

EXECUTIVE OFFICERS

J. Craig Davidson
President

R. M. Bell, Q.C.
Vice-President, General
Counsel and Secretary

P. D. Burns
Vice-President, Group Insurance

J. H. B. Clover
Vice-President and General Manager
for the United Kingdom

P. W. Lloyd
Vice-President, Individual Insurance

A. J. Trusler
Vice-President, Investments

D. E. Watts
Vice-President and Controller

Pour recevoir ce Rapport annuel en français, il suffit d'en faire la demande.

A copy of the Annual Report in French is available on request.



Confederation Life
INSURANCE COMPANY

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