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COMPANY MEETINGS

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NATIONAL MUTUAL LIFE ASSURANCE SOCIETY

SUBSTANTIAL INCREASE IN NEW BUSINESS

INTERIM BONUS MAINTAINED

APPRECIATION IN VALUE OF INVESTMENTS

YIELD ON LONG-TERM INVESTMENTS

MR. J. M. KEYNES'S VIEWS

The ONE HUNDRED AND FOURTH ANNUAL GENERAL MEETING of the National Mutual Life Assurance Society was held yesterday at the Society's House, 39, King Street, Cheapside, London, E.C.

Mr. J. M. KEYNES, C.B., chairman of the society, presided.

The ACTUARY and MANAGER (Mr. G. H. Recknell, F.I.A., F.F.A.) read the notice convening the meeting, the minutes of the previous meeting, and the auditors' report.

The CHAIRMAN.—Gentlemen,—Our net new business of £700,935, showing the substantial increase of 30 per cent. on the previous year, bears out, I think, the hope which I expressed at our meeting a year ago that the abnormal conditions which were adversely affecting us had come to an end. This year's business has been well spread among the various classes of assurance and the society's new schemes have received a good measure of support. This is particularly the case with our house purchase scheme introduced about 18 months ago in conjunction with the Burnley Building Society. The "All Clear" Income policy providing for the payment of the capital sum assured by annual instalments free of income-tax, which was introduced in the course of last year, has also met with a satisfactory response.

I may mention that the new business completed could have been increased if we had cared to encourage the issue of sinking fund policies and short-term endowment assurances particularly by single premiums. We have, however, thought it advisable to stiffen the terms on which we are prepared to transact these classes of business—partly for reasons arising out of the prospective rate of interest, to which I will return in a few minutes.

CLAIMS AND EXPENSES

The claims by death are above the exceptionally low figure of 1932, but less than in 1930 or in 1931. The increase of claims by maturity is, of course, the natural outcome of a gradually increasing volume of business. I am glad to say that the number of policies surrendered during the year has fallen very greatly—less than half the amount of either of the two previous years measured by the sums assured on the surrendered policies. It is a sign of improving conditions that this figure has now returned to within what may be expected in normal times. Our expenses show a reduction, although the expenditure ratio has risen slightly, merely as a reflection of the fact that the premium income on which the calculation is made includes on this occasion a smaller volume of single premiums than last year.

As I intimated to you a year ago, valuations with a view to distribution of surplus are to be made, for the time being at any rate, biennially instead of annually as heretofore. Nevertheless, a valuation for internal purposes has been made which shows that the trading profits, exclusive of appreciation on securities, have covered the rates of bonus declared last year with a substantial margin. The board has not, therefore, hesitated to declare an interim bonus on claims arising this year at the full rates as before.

VALUATION OF INVESTMENTS

Although our actuarial valuations are no longer published annually, we are maintaining the practice, which we have long pursued, of disclosing each year the result of the current valuation of our Stock Exchange securities and other investment assets. I am able to report a satisfactory result. The balance of appreciation in 1933 was £363,963, equal to 6.6 per cent. of the total mean funds and to 8.3 per cent. of the Stock Exchange securities. This works out somewhat better than the indexes in the case both of fixed-interest securities and of Ordinary shares, the percentages of appreciation on the mean funds so employed being 5.9 per cent. and 23.6 per cent. respectively. In 1932 a large proportion of our appreciation was earned on British Government securities. During the past year the further appreciation under this heading has been comparatively small, and the appreciation has been mainly earned on our other securities.

Taking the two years together, the aggregate appreciation has amounted to more than £1,000,000, which is a large sum in proportion to our resources, exceeding 25 per cent. of our mean holding of Stock Exchange securities. In view of this material improvement in the position the board has considered it advisable to create a reserve fund out of the surplus resources thus accumulated; and the sum of £250,000 has been transferred from the life assurance fund for this purpose. As and when circumstances permit, it is the board's present intention to increase this fund from time to time. In creating a separate reserve fund, instead of showing the whole of our surplus in the carry forward, the board has been influenced by the undesirability of including large temporary fluctuations in capital values in a revenue account primarily intended to show the result of current trading operations. We think it will be useful, therefore, to put a cushion, so to speak, between the fluctuations in capital values and the results of our current trading operations.

Our previous practice has lent itself to misunderstanding, since many other offices do not show any part of the fluctuations in capital values in their revenue accounts. The method now adopted will allow the board to continue its practice of publishing the amounts of these

fluctuations from year to year, without, however, the whole of them being allowed to swamp the normal trading figures which are much less susceptible to violent changes. I should add that the existence of this fund will in no way interfere with the board's discretion to utilize it for any purpose which seems in the best interests of the society, whether it be to meet future fluctuations in the value of our investments, to strengthen the basis of our valuation, or for any other purpose.

INTEREST EARNINGS

The average net earnings from interest and capital profits combined over the past 13 years work out at 6 per cent. per annum after deduction of income-tax. The net rate of interest which we are now able to earn on our investments is, however, much less than this, having declined during the past year from £4 5s. 8d. per cent. to £4 1s. 10d. on our aggregate funds. If we reckon our interest earnings as a percentage on the assurance funds exclusive of the reserve fund, last year's figure is £4 3s. 9d. per cent., which is more comparable with the figures published by other offices, few of which write up their assets as we do to accord with market values. The decline of the net rate of interest which we are able to earn on the investment of new money to a figure not much in excess of 4 per cent. raises, however, questions of the greatest possible importance and interest to all investment institutions and not least to insurance office, and I should like to take this opportunity of considering the general problem which this phenomenon presents in a little more detail.

In 1932 long-term British Government securities moved from a 5 per cent. to a 3½ per cent. basis. This was largely the result of the steps taken by the Bank of England to facilitate the conversion of the War Loan, including open-market operations on an unprecedentedly large scale, which raised the resources of the London clearing banks by £246,000,000, out of which they invested £176,000,000 in British Government securities.

In 1933 Government securities marked time, improving in price by only some 2 per cent., and the year was occupied by other fixed-interest securities rising to their usual parity with Government securities, and in some cases beyond it. This was in spite of a further increase of £93,000,000 in the investments held by the banks—no longer out of additional resources provided by the Bank of England, but through the shrinkage of their other assets. Meanwhile the Treasury Bill rate has averaged less than 1 per cent., and for more than a year there has been a spread of 2½ per cent. between the yield on long-term Government securities and the rate at which the Money Market has been able to borrow against them. This abnormal and anomalous relationship indicates a grave doubt

in the mind of the market as to whether the existing price of long-term securities will be maintained.

TWO VIEWS

Two views can be held. Those who are afraid of holding long-term securities point out with truth that the rise in their prices is largely due to the purchases of the banks; and they invoke, again with truth, the evidence of past experience to the effect that, as trade recovers, the banks have been accustomed to sell their investments to provide the means for increased advances to industry. They argue, therefore, believing that history will repeat itself, that long-term Government securities will fall in price as soon as there is a material improvement in the demand for advances. It would be rash to affirm that the course of events will be different this time. But I would like to give some grounds for this conclusion, before passing to what seem to me to be more fundamental reasons for expecting a further fall in the long-term rate of interest.

In pre-War days the resources of the banking system were somewhat rigidly linked to the gold reserves of the Bank of England. Open-market operations were unimportant and, broadly speaking, the assets of the clearing banks went up and down according as gold was moving into, or out of, the Bank of England. Now in times of good trade this country tended to expand, and in bad times to contract, its foreign lending more rapidly than its favourable balance; the effect of which on movements of gold was to prevent the assets of the banks from increasing in good times, while sometimes the tendency for these assets to increase was actually stronger in times of depression. It is not to be wondered at, therefore, that with improving trade it was often impracticable for the banks to accommodate industry except by selling their investments. This is the historical origin of the expectation that Consols will fall when trade recovers.

RESOURCES OF THE BANKS

To-day, however, there is no necessity for events to follow this course. The resources of the banks depend at least as much on changes in the volume of securities purchased by the Bank of England as on changes in the Bank's stock of gold. Thus the technique of management lately evolved by the Bank puts it in its power to adjust the resources of the clearing banks to the needs of trade and employment. We are no longer at the mercy of the blind and perverse forces which ensured in pre-War days that, as soon as we began to move towards prosperity and optimum employment, factors would begin to be generated which would shortly throw us back again into the pit which we had lately climbed out of.

Moreover, in present circumstances the increased basis of credit which the Bank of

England would have to provide might prove to be moderate in amount. In the first place, part of the clearing banks' existing advances represents frozen rather than active credit, so that increased demands for current credit will be partly met by the repayment of old advances; while some of the largest concerns in the country are now much less dependent on bank-borrowing than was the case with the constituent businesses out of which they have been formed. But, apart from this, an increase of (say) £20,000,000 in the Bank of England's assets would enable the clearing banks to increase their aggregate advances by 25 per cent., which should be fully adequate to all requirements unless there is to be a large rise in wages and other costs.

It is clear, therefore, that there is no necessity for reviving trade to break the gilt-edged market unless the authorities desire this to happen. So I return to the fundamental reasons, as I see them, why the authorities should in fact desire just the contrary.

RETURN ON GILT-EDGED STOCKS

There is, surely, overwhelming evidence that even the present reduced rate of 3½ per cent. on long-term gilt-edged stocks is far above the equilibrium level—meaning by "equilibrium" the rate which is compatible with the full employment of our resources of men and of equipment. It is often forgotten that 3½ per cent. is much in excess of the average yield on Consols, which ruled over the 40 years previous to the War—namely, just under 3 per cent.—or even the average yield which ruled over the 80 years from 1835 to 1914—namely, just over 3 per cent.

The argument that this comparison is vitiated by the income-tax which the lender must now pay is quite invalid if we are considering the "equilibrium" rate, rather than the actual market rate; for the rate which the borrower can afford to pay depends in the long run on the yield of capital-assets and is not increased by reason of taxes on the lender. Yet during the nineteenth century the annual amount which the community was disposed to save when it was fully employed was much below what it is to-day, whereas the outlets for profitable investment were vastly greater on account of the rapid growth of population and the opening up of new worlds oversea.

CURTAILMENT OF THE INVESTMENT FIELD

With the opportunities for safe and profitable investment abroad greatly curtailed, as much by the unfortunate results of past investment as by the diminished opportunities for new investment, Great Britain and the United States would, if they were to return to the full employment of their resources, save sums so vast that they could not possibly be invested to yield anything

approaching $3\frac{1}{2}$ per cent. No one can foretell at what point the rate of interest will reach its equilibrium level until we actually approach it. But it is highly probable that the equilibrium rate is not above $2\frac{1}{2}$ per cent. for long-term gilt-edged investment, and may be appreciably less. In the early days of a recovery, while working capital is being restored and various postponements of renewals and fresh development are being overtaken, it is true that business can temporarily stand a higher rate. But the longer the recovery lasts the further will the appropriate long-term rate of interest have to fall. If when the recovery is well on its way the Bank of England so manages the basis of credit as to force the clearing banks to sell their investments on a substantial scale or otherwise to weaken the long-term loan market, then, indeed, it is as certain that depression will follow recovery as that night follows day.

DOWNWARD TENDENCY OF INTEREST RATES

But why, in making our prognostications, should we attribute such disastrous ideas to our financial authorities? No institution is more interested than the Treasury in a falling rate of interest. The further we move from the abnormal rates of the War period, the clearer, I believe, will it become to every one that our economic health needs a rate of interest appreciably below, and not above, the nineteenth-century level. There is no harm in the fall of the rate of interest being gradual, but it is a necessity for the epoch into which we are now entering that there should be a steady movement in the downward direction. In each of the last three years, I have ventured, in addressing you, to predict a falling rate of interest. I say to-day with undiminished conviction that we are still some way from the end of the journey, and that the course of events which I forecast three years ago will still continue in the same direction.

BOARD'S CONSERVATIVE POLICY

I hope that I have not burdened your attention with so long a disquisition on general matters. But I need scarcely emphasize how important it is for those who are responsible for the conduct of a life office to ponder these matters, since our business consists in entering into long-term contracts the fulfilment of which depends on our earning not less than a certain assumed rate of interest. And I may add that, however the result may turn out, the course of prudence for a life office undoubtedly lies in leaning towards a conservative view as to the future rate of interest and in taking such measures as are possible to protect the position in the event of this rate moving steadily downwards. That is the policy of your board; and while, if my forecast proves correct, we shall not be able to avoid many perplexities, yet you may feel assured that we shall be as fully protected as we know how. (Applause.)

In conclusion the Chairman moved the adoption of the report and accounts.

Mr. CHARLES T. DYNE BURCHELL (deputy chairman) seconded the resolution, which, after the CHAIRMAN had replied to a few questions, was unanimously carried.

Mr. P. F. SCANLAN moved the re-election of the retiring directors (Sir Walter Thomas Layton, C.H., C.B.E., Mr. Gordon Leith, C.B., C.B.E., and Mr. Geoffrey Marks, C.B.E., F.I.A.).

Mr. J. H. MORTON seconded the resolution and it was adopted unanimously.

On the motion of Mr. A. BARRIE, seconded by Mr. T. C. R. ANSTEY, the auditors (Messrs. Ball, Baker and Co. and Messrs. Bolton, Pitt, and Breden) were reappointed.

Mr. C. C. BAKER moved a hearty vote of thanks to the chairman and directors.

The motion was seconded by Mr. G. S. PITT and carried with acclamation, and, the CHAIRMAN having briefly responded, the proceedings terminated.

[REPORTS OF PROCEEDINGS UNDER THE HEADING "COMPANY MEETINGS" ARE INSERTED AS ADVERTISEMENTS, BUT CARE IS TAKEN TO ENSURE THAT THEY BE TRUSTWORTHY.]