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COMPANY MEETINGS

Thursday February 20 1936

NATIONAL MUTUAL LIFE ASSURANCE SOCIETY

CONTINUED PROGRESS

FURTHER EXPANSION OF NEW BUSINESS

SUCCESSFUL INVESTMENT POLICY

FUTURE OF INTEREST RATES

MR. JOHN M. KEYNES'S VIEWS

The ONE HUNDRED AND SIXTH ANNUAL GENERAL MEETING of The National Mutual Life Assurance Society was held yesterday at the Chartered Insurance Institute, 20, Aldermanbury, London, E.C.

Mr. JOHN M. KEYNES, C.B. (the chairman of the society), presided.

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

The CHAIRMAN said: — Gentlemen,—Our annual report shows a substantial increase in the volume of our new business to a figure just less than £1,000,000. The total has, however, been swollen by an exceptional volume of non-life business. In order that the figures may be quite clear, we have, for the first time, shown separately the volume of life business on the first page of the report. There is also a substantial increase in the volume of annuity business, a class of business which, as I indicated last year, we undertake with a certain amount of hesitation; and the increase has taken place in spite of our having made our terms a little less favourable to the purchaser. Perhaps the most trustworthy guide to the progress of the business is the yearly premium income, and this has shown a larger increase than for many years past.

MORTALITY EXPERIENCE

Last year our mortality experience was exceptionally favourable. This year the tide has turned, and has left us with a greatly diminished, though not unsatisfactory, mortality profit. The

National Mutual is not a large enough office to average mortality results accurately over a single year, which may be regarded, incidentally, as a reason against our recurring too hastily to annual valuations. On the other hand, the surrenders have been unusually light, lighter, indeed, than in any year since 1927, which is a welcome indication of the improved financial position of our policyholders. The expense ratio for the year at 11.5 per cent. is artificially low on account of a substantial single-premium business effected this year; though we are satisfied that there is some real reduction after allowing for this.

VALUATION OF INVESTMENTS

The results of our investment policy during the year may be considered, I think, as very satisfactory. This is not for us a valuation period, but it has been usual in the past for me to give you annually the exact results of the revaluation of our investments at the end of each year. This shows capital profits of £203,000, equal to 3.5 per cent. of our Stock Exchange securities and 2.9 per cent. of our total assets. We are content with this result in a year in which gilt-edged securities have slightly declined and other fixed interest stocks as a group have shown no significant movement. On the average of the past 15 years, our net earnings from interest and capital profits combined have been 6.7 per cent. per annum, free of income-tax. (Applause.) I know of no other investment institution which has published so good a return over a period of years.

Though it has not been easy to find satisfactory alternative investments, we have succeeded in

making a further reduction in our unnecessarily large holding of British Government securities. On the other hand, the increase in our holdings of Ordinary shares is mainly accounted for by appreciation and our direct stake in British industrial shares, a matter to which I shall recur, is to-day much diminished. We have somewhat increased our holdings of non-Stock Exchange assets, including various forms of real estate, but it has required much patient selection to discover reasonably priced properties.

As a result we have just succeeded in maintaining the rate of interest at which we have been able to invest the new funds accruing in our hands, and the decline in the net rate of interest on our total funds from £3 18s. 6d. per cent. to £3 16s. 7d. per cent. is entirely due to the effect of writing up the fund to correspond to the additional capital profits, and not to a decline in the absolute amount of the income receipts. The rate of interest earned on our net liabilities works out at over 4½ per cent., compared with the rate of 3½ per cent. assumed in our actuarial valuation.

INTERIM BONUSES

Although bonus distributions are now biennial instead of annual, the usual internal actuarial valuation has been made. While this has shown some diminution in the year's trading surplus as compared with 1934, almost wholly because of the reduced level of profits from mortality mentioned above, the trading surplus earned last year is much more than sufficient to cover the normal bonuses declared a year ago. Apart from this margin of trading surplus, the society enters upon the current year, at the end of which a further distribution is due to be made, with a carry-forward of £279,000, together with capital profits earned last year of £203,000 and reserve funds totalling £750,000. (Applause.) Accordingly the board has had no hesitation in deciding to pay interim bonuses on claims arising this year at the full normal rates as before.

LONG-TERM RATES OF INTEREST

Two years ago I gave reasons for expecting a further fall in the long-term rate of interest. Last year I spoke more doubtfully since it seemed to me that we were between two sets of conflicting forces, and I concluded that we most needed a consolidation of the existing position coupled with a greater degree of confidence in the maintenance of the existing rates of interest. What is the prospect of the coming year?

In speaking of future prospects it is often difficult to make the distinction clear between what one considers the most desirable in the public interest and what one reckons to be the most probable in the actual circumstances. For unfortunately the course of events which is the most desirable is not always the most probable! Let me explain, therefore, that on this occasion I am primarily concerned with the question of what policy is most advisable.

If the present relatively (though not absolutely) satisfactory position is to be protected from subsequent reaction, I am sure that a further reduction in the long-term rate of interest—

which, it must be remembered, will not produce its full effects for a considerable time—is urgently called for. But it is natural to ask by what means this result can be brought about. In attempting to answer this question there are certain considerations which I should like to call to your attention.

TREASURY AND SHORT-TERM RATES

Short-term money to-day is extremely cheap. But it is confidence in the future of short-term rates which is required to bring down long-term rates. Now the policy of the Treasury is not calculated to promote such confidence. They seem reluctant to issue bonds of from five to 10 years' maturity and anxious to reduce the short-term debt, in spite of the extraordinary cheapness with which it can be carried. They starve the banks and the Money Market of the type of security which the sound conduct of their business admittedly requires, and they pay a higher rate of interest than they need.

Take as an example their latest issue. They simultaneously borrowed at 1½ per cent. for five years and at 2½ per cent. for 25 years. They used part of the proceeds to repay short-term debt which was costing them about ½ per cent. There can be no rational explanation of the longer-dated issue except that they themselves have no confidence in the short-term rate of interest remaining low. Since they largely control the situation, it is natural that humbler folk should be influenced by what the Treasury seem to expect. I suggest, therefore, that it is at least as important that the Treasury should themselves show confidence in the future of the short-term rate of interest as that they should maintain a low rate for the time being.

THE SUPPLY OF BANK MONEY

The other main factor (besides confidence in the future of short-term rates) in bringing down long-term rates of interest is a supply of bank money fully adequate to satisfy the community's demand for liquidity. The following figures are, I think, instructive. In the last quarter of 1932 the Bank of England's open-market policy had the effect of increasing the volume of bank deposits to a total 12 per cent. higher than in the last quarter of the preceding year. During the same period both the index of production and the index of prices were slightly receding. As a result the price of fixed interest securities rose during this period by 33 per cent.

Two years later the volume of bank money was practically unchanged, although the index of production had risen appreciably and the index of prices slightly. Nevertheless there was a further rise of some 12 per cent. in fixed interest securities, partly due to the delayed effect of the Bank of England's earlier measures. Last year the Bank of England again increased the volume of bank money by about 6 per cent. This was undoubtedly a move in the right direction; but it was not quite enough even to sustain the level of long-term Government securities, and not nearly enough to continue their upward movement in a year in which the London and Cambridge index of production (the Board of Trade index is not yet available) rose 10 per cent., the

index of wholesale prices 4 per cent., and that of the cost of living 3 per cent.

The net result is, comparing the end of 1935 with the end of 1932, that, whereas the index of production has risen 33 per cent., wholesale prices nearly 8 per cent., and the cost of living nearly 4 per cent., the volume of bank money has risen only 6 per cent. There are, of course, many other factors of which account must be taken; and these must have been favourable to long-dated securities in view of the way in which the latter have maintained their prices. But it is evident that the time has come for another increase in the volume of bank money, if we wish long-term rates of interest to fall further. The increase should, of course, be very gradual and almost unnoticeable from week to week, and it should be accompanied by an increase in the supply of Government securities of a maturity suitable for the banks to hold in substantial volume.

TREASURY AND BANK OF ENGLAND STEPS

The Treasury and the Bank of England undoubtedly deserve great credit for the large steps which they have already taken in the right direction. That they have not achieved more is mainly due, I think, to their underestimating their own powers to achieve what they recognize as desirable. It is true that there exist certain important limitations on their power to influence the rate of interest. But I doubt if these limitations are yet operative. The two main limitations are, respectively, external and internal. So long as the public is as effectively free to lend abroad as to lend at home it is obvious that domestic rates of interest cannot fall far below their normal parity with foreign rates without seriously upsetting the balance of international payments.

In pre-War days this limitation was of great importance. But with our exchanges no longer tied to gold, with the admirable control over the pace of foreign issues which the Bank of England has established, and with the diminished credit of many former large-scale borrowers, the position is greatly changed. I do not believe that this factor need be regarded to-day as standing in the way of a further reduction in the rate of interest. If I were told that the resources of the Exchange Equalization Fund are virtually exhausted, I might change my opinion, at least to the extent of advocating a stricter control of foreign investment, especially in American stocks. But I am hopeful that this is not the case.

The other, internal, limitation will come into operation when we have what is for practical purposes a state of full employment. In such circumstances a further fall in the rate of interest will merely stimulate a competition for current output, which will result in an inflationary rise of prices. Pre-War theory presumed that this

was the normal state of affairs. Would that it were! But, in fact, this happy condition is not yet ours. When it is the rate of interest will have fallen far enough for the time being.

INDUSTRIAL SHARE PRICES

There is another feature of the financial situation which is not entirely satisfactory—namely, the very high relative level of the prices of British industrial ordinary shares. These prices presume not merely a maintenance of the present industrial activity for an indefinite period to come but a substantial further improvement. Not that many people actually believe this, but each is hopeful of unloading on the other fellow in good time. It is true that prices not much below the present level might be justified if the long-term rate of interest were to fall sufficiently to bring forward new types of capital development. But the present *relative* levels of gilt-edged securities and of industrial ordinary shares are calculated, unless they are revised, to bring ultimate disappointment to the holders of the latter.

To argue that, on a long view, first-class fixed interest securities are cheaper to-day than the general run of British industrial ordinaries is not in accordance with the popular mood. The prospect of large Government expenditure on armaments is thought to lead to precisely the opposite conclusion. The view that I am indicating may, indeed, be premature. But if it is not true now, it soon may be.

Once again, I have had to ask your patience for a long digression from our own domestic affairs; though the problems I have been examining are highly relevant to them. (Hear, hear.) It has been a sad break with the past to meet to-day outside our own premises. But the rebuilding of our offices at the corner of Cheap-side and King Street is making good progress, and we hope to welcome you next year in our new home.

I move the adoption of the report and accounts.

The HON. FRANCIS N. CURZON (deputy chairman) seconded the resolution, which was carried unanimously.

RE-ELECTION OF DIRECTORS

On the motion of Mr. J. H. MORTON, seconded by Mr. LESLIE CARR, the retiring directors (Mr. Ernest Harold Davenport and Mr. Oswald Toynbee Falk, C.B.E.) were unanimously re-elected.

Mr. P. F. SCANLAN proposed, and Mr. W. R. DARWIN seconded, the reappointment of the auditors (Messrs. Ball, Baker and Co., C.A., and Messrs. Bolton, Pitt and Bredon, C.A.), which was unanimously approved.

A vote of thanks to the chairman, proposed by Mr. F. N. GAMMIDGE and seconded by Mr. F. F. SAPTE, terminated the meeting.

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

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