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COMPANY MEETINGS

Thursday, February 1, 1923.

NATIONAL MUTUAL LIFE ASSURANCE SOCIETY.

MR. KEYNES ON THE ECONOMIC OUTLOOK.

The NINETY-THIRD ANNUAL GENERAL MEETING of the National Mutual Life Assurance Society was held yesterday at the society's house, 39, King-street, E.C.

Mr. JOHN MAYNARD KEYNES, C.B. (chairman), presided.

Mr. GEOFFREY MARKS, C.B.E., F.I.A. (actuary and manager), having read the notice convening the meeting and the report of the auditors,

The CHAIRMAN said:—Gentlemen,—In moving the adoption of the annual report and accounts, I need not comment at much length on the various points of interest, which are sufficiently evident in the documents themselves. New business and premium income are well maintained. The net rate of interest and the expense ratio are practically the same, and, though the claims are only slightly less in amount, our profit from mortality amounts to about £30,000, which is well above the average. We have a balance of nearly £263,000 appreciation and realized profit on our investments. All except a few hundreds of this has been obtained from our Stock Exchange securities, and amounts to 10.6 per cent. of the funds thus invested, which, added to the net interest earned—namely, 4.6 per cent.—represents a total contribution for the year of 15.2 per cent., free of tax. The large appreciation secured materially increases the strength of our position. Nevertheless, it is nothing out of the way in the special circumstances of the year, being almost exactly the average appreciation of fixed-interest-bearing securities generally. The board's investment policy has enabled them, over the last three years, to combine the avoidance of serious loss when markets were falling with taking full advantage of the opportunities of a rising market. Possibly we might have made somewhat more. But the political and business outlook was, and is, uncertain, and we have been more

concerned to retain the handsome profits which we have made than to risk losing a part in the attempt to increase them further.

UPWARD TENDENCY OF TRADE.

My own view is that the strong tendency towards the revival of trade and confidence in this country, which has already begun, will need facts, and not merely fears, to hold it back. Many favourable conditions are now developing, and, although the growth of confidence about the level of prices has been necessarily retarded here, as compared with the United States, so long as the rise of the sterling exchange has continued to depress sterling prices in relation to dollar prices, the end of this movement must come sooner or later. Whether political developments are good or bad, I expect a rise, rather than a fall, of prices, which, however, is not necessarily the same thing at all as general prosperity. The number of men in employment is now about the same as before the war, which is something to set against the depressing facts that no work is at present available for the substantial increase in the employable population since 1913, and that those who are employed are probably producing on the average about 10 per cent. less than formerly for approximately the same real wage. Without great improvements in the technique and intelligence of trade and industry, it looks doubtful whether, on these terms, we shall be able to employ the whole employable population except at the very top of the periodic booms. The above estimate is in conformity with the indications of several other groups of statistics that the general turnover of trade is now on the average somewhere round about 10 per cent. below the pre-war level.

"CRITICAL SITUATION IN THE RUHR."

So far as Europe is concerned, our chief concern must obviously be the critical situation in the Ruhr. A few weeks ago a settlement would have been possible by which, in the long run, substantial payments might have been secured from Germany. Now that France has chosen herself to tear up the Treaty and to break the peace of Europe, I much doubt whether any substantial reparation will ever be paid at all. The European system created by the Peace Treaties is rapidly breaking up, and France has embarked on a course, the final results of which on the continuance of high civilization in Europe are not yet calculable. From our own selfish point of view, fortunately

the world is large ; and we must hope that those are right—and within certain limitations they may be—who believe that this country can, by prudence, maintain a decent life, in spite of violence and disorder across the Channel. We in England are, I think, a united people at the present time on the main issue, that we stand for peace, to a degree that only exists at important crises of our history.

VALUATION AND ANALYSIS OF PROFIT.

The valuation and analysis of profit, which we make each year for our own information, show that the net surplus has been increased during the year by more than £337,000, and that the total surplus now amounts to £734,000, of which all but about £98,000 is realized profit, with one year of our quinquennium still to run. This is mainly due to the fact that over the last three years we have earned in interest and appreciation on our Stock Exchange securities an average of 10 per cent. per annum, free of income-tax. At the conclusion of the most prosperous previous period in the society's history—namely, the quinquennium which ended in 1913, our total surplus represented rather less than 12½ per cent. of our actuarial liability. The surplus now disclosed is rather more than 24 per cent. of the present liability, or nearly double the proportion at the end of 1913, although, as I have just reminded you, there will be a further year's profits to be brought in before the distribution of bonus at the end of this year. This is an exceptionally favourable position for any society to be in, and, whilst there are many adjustments to be made and an adequate sum to be reserved as a carry forward, it is clear that the prospects for our with-profit policyholders are unusually good.

POPULARITY OF ENDOWMENT ASSURANCE.

Last year I referred to the growing popularity of endowment assurance, and expressed the opinion that in this form of assurance, supported by a sound investment policy, the most fruitful development of life assurance was to be anticipated. That the popularity of this class of policy has not diminished is shown by the fact that last year about 40 per cent. of our new business came from endowment assurances. This has no doubt been influenced by the consideration that, as you all know, a rebate of income-tax at one-half the standard rate is allowed, subject to the usual limitations, on all premiums paid on life assurance policies ; whilst, at the same time, under the new income-tax arrangements, any member whose taxable income exceeds £225 pays tax at the standard rate on the balance of his income, so that to the extent that his income exceeds that sum he loses nothing from the fact that the society have to pay at the standard rate on the income from investments in their hands. But if we are to develop this form of thrift fully, we must make it clear to policyholders that savings by means of an endowment policy can be regarded as a provision not only against death and old age, but also against all the other sudden contingencies of life which require a financial reserve. The average investor must obviously be at a hopeless disadvantage in looking after his savings as compared with a well-managed mutual society. It ought to be considered as

imprudent for such a man to make his own investments as to be his own doctor or lawyer. I should like to see by far the greater part of the moderate savings of the middle class invested through the best mutual offices. To encourage our own members to go further than they do in this direction, let me state clearly the existing facilities as regards borrowing against the surrender values of their policies.

SURRENDER VALUE OF POLICIES.

It is true that the amount of the surrender value sometimes seems disappointing to the policyholder, especially in the earlier years of assurance. This must inevitably be so, partly because the initial expenses have to be written off the earlier premiums received, and also because payment for the risk of death during the period already expired, the cost of which in respect of those who die untimely must be averaged over the whole number of policyholders, has to be deducted from the gross accumulated value of the premiums paid. But against the sum thus calculated, we make it as straightforward and as cheap as possible for our members to obtain cash advances to meet sudden contingencies or to pay up their premiums during a period of temporary loss of income. We are always ready to inform a policyholder as to the surrender value of his policy up to date, so that he can know exactly where he stands ; and we are prepared to make advances up to 90 per cent. of this amount, at short notice and without inquiry as to their purpose, at a rate of interest which is at present 5 per cent., and is not likely at any time in the near future to exceed 1 per cent. over Bank rate, subject to a minimum of 5 per cent. Moreover, it is always open to a policyholder, who finds it necessary to obtain an advance, to cover it by taking out at the same time an additional policy on the usual conditions for the amount in question. I urge every one of our policyholders, who is not specially well situated for looking after his own investments, to take our endowment policies up to the maximum rather than up to the minimum of his capacity to save. There must be a great volume of saving which does not, at present, find its way to the leading mutual societies, yet could advantageously do so.

RIGHT LINE OF FUTURE DEVELOPMENT.

Excluding Colonial offices, there are now 15 mutual societies in the United Kingdom, of which 10 had total funds of less than £8,000,000 each at the date of their latest published returns. This seems to me a healthy state of affairs. I am sure that the right line of future development is towards closer friendship and cooperation on many matters of common interest between existing societies, rather than the further aggrandisement of a few at the expense of the rest. There must be, I think, an ideal size for a mutual life office, a point at which its funds, its income, its outgo, its membership, its administrative staff, and its directorate are all in harmonious relationship one to the other, and so capable of their highest economic efficiency. In particular, practical experience of investment indicates that there is a definite limit to the amount of funds which an office can control to the greatest advantage, and I should put this limit not higher than £10,000,000 or

£15,000,000. I am assuming that the investment policy of the office is an active one, in the sense in which I used the words last year. If our holdings in any particular security or class of security were very large, market limitations would come in to prevent the completion of our plans, for I need not tell you that there are times when even the London Stock Exchange is not anxious to buy or sell great blocks of securities, however good they may be. We could, of course, deal on a larger scale than we have any need to do at present, or are likely to need to do for many years. But I am sure that a society which does not go beyond the limits which I have indicated above has a very real advantage in the management of its investments over the vast insurance and banking aggregations which have grown up in recent years.

PRINCIPLES OF INVESTMENT.

There is another factor where compactness and concentration are likely to be advantageous—in the directorate. You will no doubt have noticed the marked tendency in recent years, in financial and investment companies especially, but also in industrial and commercial companies, towards smaller boards, mainly composed of experts in the businesses which the companies are formed to exploit. The directors of a life assurance company will not usually be experts on the actuarial and the medical sides of the business, and, as regards the acquisition and selection of new business, their usefulness must be limited. But on the investment side, where lies, as I said last year, the chief part of the directors' duties, there is room for the application of the principles which, in other forms of enterprise,

commend themselves to those who are responsible for their control. In the last few years we have taken some steps in the direction indicated, and later on—probably at our next annual meeting—we hope to be able to submit to you our considered proposals as to the future.

BUSINESS PROSPECTS.

We do not seek to grow too big or too fast. Nevertheless, as a result of our present strong position, we are hoping, I think justifiably, for a substantial increase in our business. We have prepared for it by taking over and reconstructing the upper part of the next house, thus securing more and greatly needed accommodation for our staff. We are now in a position to handle, even more rapidly than in the past, the business which may come our way. (Cheers.)

The chairman concluded by moving the adoption of the annual report and accounts.

Mr. ARTHUR KEANE THARP (deputy-chairman) seconded the motion, which was carried unanimously.

The CHAIRMAN announced that Captain Edwards-Heathcote, D.L., J.P., one of the retiring directors, did not offer himself for re-election owing to advanced age, and added that the board had accepted his resignation with the greatest possible regret.

Mr. Archibald Hay Gordon-Duff and Mr. John Maynard Keynes, C.B., the other retiring directors, were re-elected directors, and Mr. G. S. Pitt, F.S.A.A., and Messrs. Ball, Baker, Cornish, and Co. were appointed auditors.

The proceedings closed with a cordial vote of thanks to the chairman and directors.

[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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