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COMPANY MEETINGS

Thursday, January 27, 1927.

NATIONAL MUTUAL LIFE ASSURANCE SOCIETY.

A SATISFACTORY YEAR.

ENDOWMENT AND WHOLE-LIFE BUSINESS.

MR. J. M. KEYNES'S VIEWS.

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

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

The ACTUARY and MANAGER (Mr. Geoffrey Marks, C.B.E., F.I.A.) having read the notice convening the meeting, the minutes of the previous meeting, and the report of the auditors,

The CHAIRMAN said:—Gentlemen,—We are again able to say that the National Mutual has experienced a satisfactory year. Our new business has slightly increased, our average policy is larger, and our profits from trading and interest exceed those of last year by nearly £20,000. The decrease in the premium income and the increase in the expense ratio are due, in accordance with the explanation I made last year, to the smaller sum which we received in single premiums in 1926 as compared with 1925. If in both years we were to substitute equivalent annual premiums for the single premiums received, we should find that our annual premium income had increased by about £7,000, while the expense ratio had decreased by about 6s. per cent. and was nearly 1 per cent. below the average of the post-war years. Moreover, our total expenditure on commission and expenses of management is somewhat less than in 1925 in spite of the increase in the new business.

THE GROSS PROFITS.

Our gross profits for the year from all sources amount to £150,465, as compared with £153,864 in 1925, and are made up as follows:—

Profit from mortality ..	£35,353	} + £12,500
Profit from miscellaneous sources	9,487	
Interest earnings in excess of 3 per cent. on mean fund, excluding carry-forward from 1925	58,162	+ 7,000 (nearly)
Capital appreciation on securities sold or re-valued (before making special allocation) ..	19,091	- 25,000
Interest earned on the carry-forward from the previous year ..	27,772	+ 2,250
	<u>£150,465</u>	
Net rate of interest ..	£4 13 3	+ 1s. 9d. %

I have given the mortality profit separately as it is a large amount for us and is due to our remarkably light mortality. I also state it as a separate definitely ascertained figure, because it is a too common practice to give the difference between actual and expected claims, leaving it to be inferred that this difference represents the profit on mortality. It is nothing of the sort, since the total of actual claims thus stated treats equally claims falling on young lives and policies recently effected with claims falling on old lives and policies of long standing.

VALUE OF INVESTED FUNDS.

In respect of our invested funds, we have secured on the year only a small appreciation in capital value—about £20,000. This is not so large as in recent years, but, as I pointed out a year ago, capital appreciation is bound to be an irregular item, in respect of which we cannot hope to repeat year by year the figures of our best years. However, we have now been on the right side for six consecutive years, and have accumulated altogether from this source the sum of £665,000, or about 16 per cent. of our mean fund during this period, the whole of which has been employed so far in strengthening our resources in various ways, mainly by additions to the carry forward, which now yields us an interest

income of about £28,000 a year, quite apart from the results of any year in respect of current business.

In obtaining this small appreciation during the year, amounting to about .4 per cent. of our mean fund, we cannot claim to have done appreciably better than the average. The securities index of the "Investors' Chronicle" shows that gilt-edged securities fell during the year 1926 by .5 per cent., whilst Stock Exchange investments generally rose .3 per cent. on balance. In fact, apart from a few small groups and individual securities, the net changes on the year have been remarkably small as compared with previous periods.

INVESTMENT PROBLEMS.

I called attention last year to the unusually large proportion of our assets which we were holding in British Government securities, and I added that it was not the policy of the board to hold so large a proportion of our funds in this way as a general rule. During the past year this figure has been slightly reduced—namely, to £2,112,000. Your board have been proceeding slowly and carefully with the task of finding an outlet for the society's funds in securities yielding on the average a somewhat higher rate of interest. They will do their best to proceed further in the same direction during the current year, for our British Government securities still represent 58 per cent. of our Stock Exchange securities and 44 per cent. of our total invested funds.

The heavy investment of life offices generally in British Government securities is, of course, entirely a post-war phenomenon, and, on the average of the leading offices, the tide has already begun to turn in the opposite direction. Figures published in the "Journal of the Institute of Actuaries" show that for 26 leading offices the proportions of British Government securities to total investments have been as follow:—

1913.	1922.	1924.
0.23	40.30	35.87

It is right for the Treasury to proceed on as optimistic a hypothesis as possible as to the future rate of interest at which they will be able to borrow, but it will be prudent to remember that, with the vastly increased volume of outstanding debt, Consols, new or old, are bound to stand on a more strictly competitive basis with alternative investments than was the case formerly. Policyholders have become accustomed to bonuses which presume, in most cases, that the office is earning on the average a net rate of interest of not much less than 4½ per cent. after payment of income-tax. If an attempt is made to put British Government securities on a basis appreciably below 4 per cent. net, it is certain that in many quarters

a powerful stimulus will be brought into play to find more profitable outlets for invested funds. In seeking these outlets no doubt mistakes will be made, just as they were before the war. Your board will not forget that the depreciation of investments has been the plague of insurance finance in past years, and that avoidance of this kind of loss must be their first consideration.

FUTURE RATE OF INTEREST.

Guessing at the future rate of interest is, in my opinion, one of the most puzzling problems in the world. I am quite unable to take a confident view either way. Before the war Great Britain, France, and Germany set the pace in the international loan market. Henceforward it will be the United States. Is the United States going to have such a surplus of savings over her own needs and such confidence in the prevailing conditions of the outside world that she will be prepared to subscribe heavily year by year to first-class international securities at a yield of less than 5 per cent., as we used to do? The answer to this question is going to determine by its indirect reactions the equilibrium price of British Government long-dated securities far more than anything the British Treasury can do by ingenious methods of funding or by powerful sinking funds. Nevertheless, for the first time in more than three years past I incline to agree with the prevailing opinion that, so far as the near future is concerned, the signs seem to be set in favour of a somewhat lower rate of interest.

BONUS DECLARATION.

I come now to our declaration of bonus for the past year, particulars of which are already in your hands. We maintain last year's figure of 44s. per cent. compound on all classes of with-profit policies, and we are giving an additional bonus for this year of 6s. per cent. compound, making 50s. altogether, on whole-life with-profit policies. The total cost of this is covered by the ordinary profits of the year, excluding capital appreciation and interest earned on the carry-forward. The change from previous practice in the method of distribution requires some explanation.

The relative terms which we and other offices quote for endowment assurance policies and whole-life policies respectively are based, amongst other things, on certain assumptions as to the rate of mortality to be experienced and the rate of interest to be earned. The assumptions are cautious, and, in so far as we can do better, with-profit policyholders reap the benefit in the shape of bonuses. In course of time, however, these assumptions have come

to differ from actual experience by far more than the margin of reasonable precaution which they represented when this method was first adopted. The rise in the rate of interest and the fall in mortality as compared with the life-tables still in use, which is all that actuaries have to work on pending the completion of the new tables, have been so considerable as seriously to upset the parities between the existing premiums on the two leading classes of policies. Put very roughly, the decline in mortality brings us more surplus profit in the case of whole-life policies than it does in the case of endowment assurance policies. Thus, if we pay the same rate of bonus to both classes we are in danger of paying out to holders of the latter profits which we have really earned on our whole-life business.

The compound reversionary bonus system cannot pretend, any more than any other method of distributing surplus at present in use, to do mathematically precise justice all round; nor with the information at present available is it possible to make exact calculations as to what is precisely just. Nevertheless, two striking papers read before the Institute of Actuaries during the past year, one of them by Mr. C. R. V. Coutts—whom we are glad to see here to-day (hear, hear)—a former assistant actuary of our own society and now the distinguished actuary of the Provident Mutual Life Assurance Association, and the other by Mr. G. H. Recknell, our present assistant actuary, have made it clear that, with the existing relative with-profit rates of premium, the anomalies of an equal bonus on endowment assurance policies and on whole-life policies are becoming altogether excessive. I refer anyone who is interested in the details, and thinks he can understand them (laughter), to the "Journal of the Institute of Actuaries" for July, 1926, wherein both papers are printed.

In the light of these calculations your board have decided, without binding themselves as to their future action, that they will be doing no more than justice to their with-profit whole-life policyholders if they award them for this year an additional bonus of 6s. per cent. compound. I venture to congratulate these members of the society both on their longevity and on its reward. (Laughter.) I should add that this differentiation will involve no injustice to the holders of endowment assurances. Indeed, we calculate that the balance of advantage is still, if anything, very slightly in their favour. This is true even in the case of those policies which have been granted since the beginning of last year

at the increased premiums which then came into force. *A fortiori*, it is true of entrants before that date.

ENCOURAGEMENTS TO WHOLE-LIFE BUSINESS.

There is a further advantage in this course in that the proportion of whole-life business done by the leading life offices had fallen off seriously since the war, and the special bonus may do something to restore the whole-life policy to favour. The popularity of endowment assurance has been based, indeed, on sound foundations. In past years I have strongly advocated it as a means of investment, especially for the man of moderate means and little financial training or experience, and I still do so where the main consideration is the safe investment of small savings. But for the proper balance of a life office's business as a whole, a due proportion of whole-life business is highly desirable.

The tendency of chairmen of life offices to deplore in their annual speeches the falling off in whole-life business, when actuarial science has been able to show that they are offering these policies on relatively unfavourable terms, is surely not quite consistent. (Hear, hear.) In their preference for endowment assurance on the existing terms the public have been showing, doubtless by accident, the shrewder actuarial instinct. (Laughter.) Other encouragements to whole-life business, which we have already put into practice, have resulted in the proportion of this type of our assurances to our total new business increasing from 27½ per cent. in 1925 to 40 per cent. in 1926. With the additional bonus now declared, and having regard to our rates of premium and the general strength of our position, we can now claim, I think, to be the most attractive office in the country to the applicant for a whole-life policy.

The Report of the Board of Trade Committee on the revision of the Assurance Companies Act, 1909, will shortly be published, and it is probable that, as a result of their report, considerably wider disclosures as to the exact position of the companies will have to be made in official returns. In this connexion I should like to re-state our own position, which I described in my speech three years ago. We act on the principle that the balance-sheet should show the exact position at the end of each year as nearly as it can be ascertained. We disclose the whole of our surplus, and we state the present values of our assets and the bases on which these values are arrived at. We hold no concealed reserves to act as a curtain for any future mismanagement or future losses. Our financial and

actuarial results are fully exposed to the skilled outside critic.

This is our 97th annual meeting, and the report before you is the 97th annual report. Our centenary meeting will be held early in 1930, and the annual report will then deal with our position at the end of our 100th year

of existence, counting from the date of the foundation of the old "National."

The report and accounts were unanimously adopted; the formal business was duly transacted, and the proceedings terminated with a vote of thanks to the chairman, the directors, and staff.

[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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