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COMPANY MEETINGS.

Thursday, January 19, 1922.

NATIONAL MUTUAL LIFE ASSURANCE SOCIETY.

MR. J. M. KEYNES ON TRADE REVIVAL.

ATTRactions OF ENDOWMENT POLICIES

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

Mr. J. M. KEYNES, C.B. (chairman of the company) 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:—Before moving the formal adoption of the annual report and accounts, I will comment, in accordance with the usual custom, on points of special interest arising out of them.

The directors regret to report the death during the year of their chairman, Colonel Villiers. He was a loyal supporter of the society, and after serving on the board for 45 years, he had been for the last 18 months of his life the society's chairman, a position which he filled with dignity and with the respect of all his colleagues. (Hear, hear.) My fellow-directors have done me the honour to elect me his successor, an honour which I naturally much appreciate.

Mr. W. T. Layton, whose name and reputation in economic and in business circles are well known, has been appointed to the board, subject to confirmation by the members at this meeting.

The new business of the year is set out in the report. It is about 16 per cent. less than last year, but is in excess of the new business obtained in any year previous to 1919. Some diminution in our new business is not surprising in view of the general depression of trade throughout the past year. A similar experience is shown in nearly all the returns of life assurance so far published, and in the

case of some of the best and strongest offices the decline has been relatively larger than our own.

PREMIUM INCOME AND EXPENSES.

Nevertheless, the depression has not prevented our securing more than enough business to replace the claims, surrenders and lapses of the current year, with the result that our premium income is increased by about £13,000.

Last year the chairman called attention to the increase in the expense ratio, and gave the reasons for it. This year you will be pleased to learn that, our expenses having been practically the same as in 1920, whilst the premium income has increased, the ratio of expenses to premium income has fallen by more than 1 per cent. of the latter.

CLAIMS.

The claims by death exceed those of 1920 by approximately £34,000, but 1920 was in this respect the most successful year which the society has ever experienced, while 1919 was nearly as good. Some increase in claims, as compared with these years, was therefore inevitable, and is no cause for any uneasiness as to the character of the lives assured in the society. In spite of the heavier claims, the year's results still show us a small profit under the heading of mortality.

RATE OF INTEREST.

The rate of interest, both gross and net, again shows a satisfactory increase, being better than last year by rather more than 4s. per cent. over the whole of our securities, excluding reversions. The net rate of interest, after deduction of income-tax, was £4 13s. per cent., as compared with the rate of 3 per cent., on the basis of which we value our liabilities. This difference represents a profit of about £56,000 in the year, which goes to swell the surplus which will be divisible amongst the members at the end of 1923. It is possible, however, that the current year may see some diminution in the rate of interest obtainable.

STOCK EXCHANGE SECURITIES.

You will see on the left-hand side of the revenue account that there is a balance of profit on assets realized and revalued of nearly £179,000. Of this sum, £162,000 is represented by profit actually realized in cash, and

only £17,000 is attributable to an increase on balance in the reassessment of book values. Nearly all—namely, £172,000—of this profit is due to the capital gains on our Stock Exchange securities, which represents about 8 per cent. over the whole of our assets of this description. A considerable part of this is, of course, attributable to the general improvement in the values of gilt-edged securities which occurred in the latter part of last year. But the exceptionally satisfactory result recorded above could have been secured only by the special care which the board have bestowed on this part of their duties and the active policy which they have pursued in taking quick advantage of the opportunities which have presented themselves.

COMPARISON OF VALUES.

The members can best judge, I think, of the success which has attended the efforts of the board in this direction by considering together the results of the two years 1920 and 1921. This period happens to be a particularly convenient one for purposes of comparison, because the leading British Government securities stood at almost the same prices at the beginning and at the end of the period. For example, Five per Cent. War Loan stood at 91 7-16 at the beginning of the two-year period, and at 92½ at the end of it; Funding Loan at 75½ and 76½; Victory Bonds at 80½ and 81½; and Local Loans at 55½ and 56. In fact, the average of these four standard securities fell 10 per cent. in 1920 and rose 11 per cent. in 1921, so that the depreciation of the first year was almost exactly balanced by the recovery in the second year, the net result over the two years being an appreciation of almost exactly 1 per cent. National War Bonds did a little better than this, the recovery in 1921 bringing them to about 4 per cent. above what they had been two years earlier. On the other hand, many other classes of securities, particularly Ordinary shares, showed a heavy depreciation on balance over the two years.

BALANCE OF APPRECIATION AND REALIZED PROFIT.

The test of success in an active investment policy is to be found in an ability to avoid losses when security values are falling, whilst, nevertheless, obtaining profits when they are rising. Anyone can make profits in gilt-edged investments when gilt-edged investments are all going up; and we must look, therefore, to the net result of the two years 1920 and 1921 taken together. Over these two years our society has a balance of appreciation and realized profit over the whole of its Stock Exchange securities of approximately 6 per cent. I do not think that any other society can show an equally good result, and I am certain that it could not have been obtained by an inactive policy, however well and carefully the investments had been selected in the first instance.

ASSURANCE SOCIETIES AND INVESTMENT POLICY.

I venture to say that at the present time life assurance societies must stand or fall mainly with the success or failure of their investment policy. The labours of the great actuaries of the 19th century have carried actuarial science to a point where great improvements or striking innovations are no

longer likely. All well-conducted societies now follow almost the same established actuarial rules. They work on mortality tables based on past experience, which, by reason of the improvements in medical science and public sanitation, are likely to yield some profit on the actual claims falling due over a period of years. The rise in the rate of interest, even when allowance is made for the depreciations of income-tax, the present incidence of which on life assurance is open to objection both on principle and on grounds of public policy, provides an automatic profit over the rate assumed in the valuation. These factors are in favour of all societies alike, and tend to put them in a strong position, unless these advantages are thrown away by a defective investment policy. But investment, on the other hand, provides both more pitfalls and also more opportunities than formerly. The wide fluctuations even in securities of the highest class, which have occurred in recent years, are likely to continue in the near future; while the range and choice of investments now available afford opportunities for an active policy which did not exist previously.

NEW PROBLEMS.

Until comparatively lately, insurance companies generally employed a large proportion of their funds outside Stock Exchange securities in mortgages, reversions, ground-rents, house property, and loans; and when they ventured into stocks and shares, those in which it was suitable or convenient to keep a large holding were few and lacking in variety. The requirements of Government and municipal finance have now led to the creation of stocks of the greatest possible variety and of all maturities, from perpetual stocks to short-dated bonds. The new problems of investment thus presented are, in the opinion of your board, the most difficult and the most important with which the insurance world is now faced. They believe that the gradual building up of a sound investment policy is the most vital part of their duties. It is too soon to speak confidently as to what can be done on these lines. But at any rate the results which your board has obtained in the past two years are not an accident, but are attributable to a conscious and deliberate policy.

FUNDS AND VALUATION.

The funds of the society have increased during the year by £277,000, the largest addition which they have ever received in a single year. This year, as in previous years, we have made a valuation of our liabilities for our own information, with a view to determining how much of this increase represents surplus. These valuations are made on exactly the same basis as those which are made quinquennially for the purpose of bonus distribution. The fact that, although our annual meeting is being held a week earlier than usual, the whole of the valuation results are already available, is greatly to the credit of the staff (hear, hear), and the conduct of the routine side of our work with so much punctuality and good order helps to give the board confidence that, if increased business were to come our way, we have an organization which could handle it with promptitude and accuracy.

THE INCREASE IN NET SURPLUS.

This valuation discloses that our net surplus has increased during the year by £231,000, bringing our aggregate surplus up to nearly £409,000, with two more years still to run before the close of the current quinquennial period. At our valuation in 1913, which concluded the most successful quinquennium in the society's history, there was a surplus of £341,000, on which result a compound reversionary bonus of 36s. per cent. was declared and more than £100,000 carried forward. The cost of a similar bonus would now be greater, owing principally to the increase in the number of endowment assurances. But, after making allowance for this factor and for certain adjustments which may be necessary in 1923, the prospects for the society's policyholders are decidedly good.

PRODUCTION AND CONSUMPTION.

I look for a revival of trade in the coming year, irrespective of political developments here and in Europe, because I attribute the exceptional severity of the recent trade depression by no means entirely to the falling-off in consumption, but also in large measure to a financial and credit situation which has held up production and has kept it far below the rate of current consumption. This means that stocks of commodities, particularly invisible stocks, have been falling, a process which cannot go much farther without leading to scarcity and a reaction towards higher prices and busy production. Let me quote two figures so striking as to be almost incredible. In 1921 Lancashire export of piece goods was the lowest for 60 years; Great Britain's production of pig iron was the lowest for 70 years. In spite of the war and the state of Europe, nothing like this can be true of consumption.

GROWING POPULARITY OF ENDOWMENT ASSURANCES.

In conclusion, I should like to say a word about possible developments in the future. The growing popularity of endowment assurances points the direction, I think, in which insurance can develop most fruitfully. Life assurance, in its origin, sought to provide an organization to mitigate the injury to a man's family from his premature death, and to accumulate the savings which he desired to transmit to his heirs. With the development of endowment assurances, provision is

now also made for accumulating the savings which are to care for his own old age. I believe that if the boards of assurance societies can gain enough public confidence in their investment policies, we shall come, even more than at present, to look on such societies as providing the best available organization for looking after the savings of the middle class.

INVESTMENTS OF THE MIDDLE CLASSES.

We ought, I think, to improve the facilities for making funds available to the policyholder in case of need in advance of the maturity of the policy. With that and other improvements, I do not see why societies such as ours should not become the main channel for the investments of the savings of the middle classes. After all, the man who saves £50 to £100 a year usually stands at an immense disadvantage if he tries to invest these small sums in Stock Exchange securities. The expenses of such investment are relatively large; he generally finds it difficult to obtain good advice; and he cannot easily average his risks. What a considerable part of such savings are often lost! During the past two years this society has earned on its Stock Exchange investments in interest and appreciation 7½ per cent. per annum clear of income-tax. How many policyholders have done as well for themselves? I am sure that there is no better investment for small annual savings than our with-profits endowment policies.

A well-managed mutual society, where the profits all belong to the policyholders, is surely an ideal institution for the investment of small annual savings. If only the mutual societies of this country can improve their principles of investment as successfully as they have perfected actuarial science, their social usefulness will be even greater in the future than it has been hitherto. (Cheers.)

I now beg formally to move the adoption of the annual report and accounts.

The HON. FRANCIS N. CURZON seconded the motion, which was carried unanimously.

The appointment as a director of Mr. W. T. Layton, C.H., C.B.E., was confirmed, and the retiring directors (the Hon. Francis N. Curzon, Mr. O. T. Falk, C.B.E., and Mr. Gordon Leith, C.B., C.B.E.), were re-elected.

The auditors (Messrs. John B. Ball and G. S. Pitt) having been reappointed, a cordial vote of thanks was given to the chairman, directors, and staff, and 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.]