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# THE TIMES

COMPANY MEETINGS

Thursday February 25 1937

## NATIONAL MUTUAL LIFE ASSURANCE SOCIETY

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### RECORD NEW BUSINESS

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### BIENNIAL VALUATION AND BONUS

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### INSURANCE WORLD AND GOVERNMENT FINANCE

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### NATIONAL ABILITY TO MEET DEMANDS

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### MR. J. M. KEYNES'S ADDRESS

The ONE HUNDRED AND SEVENTH ANNUAL GENERAL MEETING of the National Mutual Life Assurance Society was held yesterday at the Society's House, 39, King Street, in the City of London.

Mr. J. M. KEYNES, C.B., the chairman, 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 last annual meeting, and the report of the auditors,

The CHAIRMAN said:—Gentlemen,—Our new business during the past year, with gross and net totals of £1,327,200 and £1,011,200 respectively, constitutes a record in the society's history, whilst the life business proper—namely, £903,227 net—is only a little less than our previous best. With an old-established society such as ours, however, where the annual wastage from claims, &c., reaches a large figure, the progress of the yearly premium income is perhaps the best index of the extent to which new business is more than making good what we are losing by the efflux of time. It is therefore satisfactory to be able to report an increase in the

yearly premium income of approximately 10 per cent. during the last two years—namely, from £363,514 in 1934 to £397,117 last year. As I mentioned in a previous speech, we have stiffened our terms for annuities, with the result that we have taken somewhat less consideration money for this business—namely, £42,000 in 1936 as against £60,000 in 1935.

The total sum paid in claims by death and maturity—namely, £350,000—is rather less than in 1935. Although the total includes a larger aggregate of death claims, the incidence of those claims has been more favourable, with the result that the profits from mortality during the past two years show an improvement. The apparent increase in our expense ratio is largely due to the smaller amount received in single premiums.

#### SUBSTANTIAL APPRECIATION OF STOCK EXCHANGE SECURITIES

As a result of the annual valuation of the assets we are again able to report a substantial appreciation, amounting to £365,793, on our Stock Exchange securities, or 6.2 per cent. of their mean value. We have taken the

opportunity to write down substantially the cost of our own new building and also certain other real estate assets, whilst not taking credit for appreciation in these items where such is reported. The net result is to show a balance of capital profit on assets realized and revalued amounting to £310,758. During the past year the period of appreciation on gilt-edged and other fixed-interest securities has come to an end, and in these circumstances we consider so substantial a capital gain to be satisfactory.

In continuation of the figures which I have given in many previous speeches, the combined net earnings for interest and capital profits over the past 16 years have averaged 7.1 per cent. per annum, free of income-tax. This is not a method of calculation which is particularly significant over a short period, but over so long a series of years it is, I think, interesting.

For some time past your board has been aiming at effecting a reduction in what were our rather unduly large holdings of British Government securities. With the constant growth in our aggregate funds we have not found this easy. But some further progress has been made during the past year, particularly by increasing our investment in non-Stock Exchange assets, including mortgages, reversionary securities, and real estate. Partly by this means we have been able to arrest for the time being the decline in the net rate of interest on our funds, which has been maintained during the past year at practically the same figure as in 1935—namely, £3 16s. 4d. net, as against £3 16s. 7d. I should remind you that this figure is not comparable with the rate of interest published by other offices which do not write up their assets as we do to accord with market values, the more comparable figure being the interest calculated as a percentage on our insurance funds, which works out at £4 6s. 1d. per cent. net. The increase in our holdings of Ordinary shares is largely due to appreciation.

#### STRENGTHENING THE RESERVES

Under our present system of a biennial valuation of liabilities we have now reached the end of a valuation period, and the time for the declaration of a bonus. The details of the valuation are set out fully in the actuary's report, which is in your hands. Reckoned on the same basis of valuation as at the end of the previous biennium, our gross surplus comes out at £1,114,063. Of this sum the amount due to realized profits and profits from appreciation in the value of our capital assets in the two years is £513,646. It may prove, however, that the end of 1936 was a particularly favourable moment for the valuation of securities, and we have decided that virtually the whole of the above sum should be utilized to strengthen our reserves in various ways. In the first place we are taking the important step of strengthening the basis of the valuation of our liabilities by reducing the rate of interest assumed from 3½ per cent. to 3¼ per cent. Under the system of so-called "bonus reserve" valuation, which we, in common

with a few other offices, are now employing, the object is to replace largely artificial assumptions by assumptions more closely related to the current facts. We have, indeed, in the last two years succeeded in earning a net rate of interest just in excess of 3¼ per cent. But the margin is excessively narrow, and we feel that it would be more prudent to provide some margin against a further fall in the rate of interest by basing our calculations on the prospect of earning no more than 3¼ per cent. We have also increased the provision for expenses, the total cost of revising the basis of valuation in these two respects being £293,900. In addition, we have added £150,000 to the reserve fund, making this fund up to the total of £750,000, and £43,653 to the carry-forward. Thus we enter upon the new valuation period with total reserves £1,222,600 in excess of the actuarial reserves equal to 18.5 per cent. thereof.

#### RECORD BONUS DISTRIBUTION

The balance available, after making these special allocations, amounts to £661,693, out of which we are declaring bonuses, as shown in the actuary's report, of 52s. 6d. per cent. and 45s. per cent. compound per annum respectively for whole life assurances and endowment assurances with full profits, and 17s. 6d. per cent. per annum compound for low premium policies with reduced profits. This distribution, which repeats the distribution made two years ago, in 1934, is the highest in our history, and is, we believe, higher than the distribution by any other mutual office in this country which calculates bonuses on terms which can be compared with ours. I emphasize this point in order to make it clear that our very large accumulation of surplus resources has been compatible with a liberal treatment of our policyholders. It is no easy matter for the board of a mutual office to hold the scales level between a proper provision for future contingencies and the amounts currently distributed. But you may be assured that your board gives this matter the most constant and anxious attention, and does not purpose to withhold from distribution any more than a prudent view of the contingencies of the future makes necessary.

#### REARMAMENT AND THE GILT-EDGED MARKET

I said a moment ago that the end of 1936 might prove to have been a specially favourable date for the valuation of our assets. For, on the one hand, industrial securities had probably felt by then the major effects of industrial recovery apart from any temporary top-knots due to actual boom conditions; while, at the same time, gilt-edged securities were still retaining the major part of their large gains. The subsequent disclosure of the Government's rearmament programme certainly seems to postpone for some time the prospect of an industrial recession. But the effect on the gilt-edged market has been severe; and an assurance society is, of course, much more largely interested in fixed-interest

securities than in equities. Naturally, therefore, the assurance world is scanning the prospects of Government finance with some anxiety. Are we entitled to take a cheerful view?

**TREASURY'S NEED OF A CONCERTED POLICY**

I feel no doubt that the sums which the Chancellor of the Exchequer proposes to borrow are well within our capacity; particularly if as much of the expenditure as possible is directed to bringing into employment the unused resources of the special areas. It is incumbent on the Government to have a concerted policy for retarding other postponable capital expenditure, particularly in the near future, if temporary congestion is to be avoided; and there are other suggestions which could be, and have been, made. But over a period of five years there should be no difficulty in finding the resources required. The sinking funds of public boards and local authorities in respect of past expenditure, the huge repayments which the building societies are now collecting as the new houses of recent years are cleared of indebtedness by their owners, the steady growth of deposits in the Post Office and trustee savings banks in times of good employment, the large sums which industry will be able to put to reserves out of its profits—these alone should amount to something like £400,000,000, not in five years, but in one year. We must not estimate investible funds in a period of such large expenditures as are now contemplated on the basis of what they were in the years of depression.

**POSSIBILITY OF AVOIDING INFLATION**

Thus it lies within the power of the Chancellor to get his money without producing conditions of inflation. But there remains the further question, what will he have to pay for it? This, to my mind, is entirely a matter of management and how the task is handled. If the Chancellor, weighed down by a sense of guilt, feels that for the sin of borrowing he must chastise himself (and us) by borrowing dear, markets will respond accordingly. But he will not find that this will make it any easier to borrow. On the contrary; it is much easier to borrow on a rising than on a falling market. The calls to be made on the gilt-edged market are a reason for encouraging the supporters of that market. And this, with their past experience to guide them, is what I should expect the Treasury to do.

In considering the terms on which new loans can be issued, it is interesting to compare the techniques of the British and the American Treasuries. In our own case by far the greater part of the debt (apart from Treasury bills) has no fixed date of repayment within the next 25 years—in round numbers £5,000,000,000 is long-dated in this sense and only about £1,000,000,000 of intermediate date. Moreover, nearly half of the securities of intermediate date stand above par, and are, therefore, inconvenient holdings to many

investors for tax or other reasons. In the United States, on the other hand, practically the whole of the debt is repayable within 25 years; indeed, there is nothing beyond 30 years. And within the next 25 years there are Notes or bonds falling due for repayment in almost every year. Thus every taste is suited, the rate of interest rising slowly as the date of maturity becomes later; for example, the tax-free rates are about  $\frac{1}{4}$  per cent. for one year, 1 per cent. for two years,  $1\frac{1}{4}$  per cent. for four years,  $1\frac{3}{4}$  per cent. for six years, 2 per cent. for 10 years, rising to  $2\frac{1}{2}$  per cent. for 15 years.

These rates do not greatly differ from the net redemption yields on British Government securities for comparable periods; but the arrangement of the maturities allows the American Treasury to borrow at a materially lower average rate. It is to be remembered that many holders of gilt-edged securities are primarily interested in security of capital; and whilst there are others who are attracted by security of income over a long period, it is unlikely that these latter are five times as numerous as the former. It is, therefore, expensive for the Treasury to keep the long-dated market in relative over-supply. They should profit from the anxieties of the public and save interest by supplying them with the potential liquidity which they demand.

**PRESENT INTEREST RATES NOT EXCEPTIONALLY LOW**

In any case it is a popular error to suppose that the rate of interest to-day is exceptionally low. During the half-century preceding the War the average yield on Consols was approximately 3 per cent. To-day the yield on War Loan is almost  $3\frac{1}{2}$  per cent. There was not a single five-year period between 1837 and 1914 when the average yield on long-term gilt-edged securities was as high as it is to-day. Yet our capital wealth per head is now half as great again as it was during much of that period; and in those years we were providing for a rapidly increasing population and were investing largely abroad. Even with the Treasury's requirements what we now know them to be I see no justification in the years to come for a long-term rate of interest higher than 3 per cent.; and, indeed, it should be lower.

Nevertheless, the board of a life office must keep themselves prepared for disappointment and be more interested in what may be than in what should be. We have, therefore, preferred to assume that the end of 1936 was a particularly favourable date for our valuation. If two years hence our hopes have been fulfilled and our fears allayed, all the better.

**THE SOCIETY'S NEW BUILDING**

The most important domestic event of the year has been, of course, our entry into possession of our fine new building, after having been deprived of the use of our old site for 18 months. The new premises make much better use of this important position. They incorporate modern principles of

planning and offer our staff a greatly increased standard of comfort. The cost has, for various reasons, substantially exceeded our early estimates, but we are carrying the building in our books at what we are advised is a moderate and conservative figure. Any members present who care to take this opportunity of inspecting the building after this meeting will be very welcome. I should like to mention in this connexion the very interesting booklet, written by Mr. Recknell, on the history of the site and of our immediate surroundings during past centuries. Since we have occupied it ourselves for the better part of a century, we have been interested in tracing our predecessors. A copy of the book is available to any policyholder here present who would care to have one.

We have experienced a great personal loss within the last few days through the death of Mr. Charles Burchell, our deputy chairman until 1935, and a servant of the society as solicitor and as director for 47 years. He

was very much beloved by his colleagues, and his death severs a link between his family and the board which had existed since 1834.

I move the adoption of the report and accounts.

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

Mr. C. R. V. COUTTS moved the re-election of the retiring directors (Mr. J. M. Keynes, C.B., and Sir Walter T. Layton, C.H., C.B.E.).

Mr. J. H. DEWEY seconded the motion and it was unanimously adopted.

The auditors (Messrs. Ball, Baker and Co. and Messrs. Bolton, Pitt and Breden) were re-elected, on the motion of Mr. MAITLAND CHATER, seconded by COLONEL R. BRUCE HAY.

Mr. FRANCIS COOKE moved a cordial vote of thanks to the chairman.

The resolution was carried with acclamation, and, the CHAIRMAN having briefly responded, the proceedings terminated.

[REPORTS OF PROCEEDINGS UNDER THE HEADING "COMPANY MEETINGS" ARE INSERTED AS ADVERTISEMENTS.  
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