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COMPANY MEETINGS

Thursday, January 28, 1926.

NATIONAL MUTUAL LIFE ASSURANCE SOCIETY.

REVERSIONARY BONUS RAISED TO 44/- PER CENT.

MR. KEYNES ON MONETARY POLICY.

The ANNUAL GENERAL MEETING of The National Mutual Life Assurance Society was held yesterday at the Society's House, No. 39, King-street, Cheapside, E.C.

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

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

The CHAIRMAN said:—Gentlemen,—The National Mutual Society has again experienced a satisfactory year. Our gross profits amount to £153,864, made up as follows:—

Net miscellaneous profits from mortality, &c.	£32,360
Interest earnings in excess of 3 per cent. on mean fund, excluding carry-forward	51,347
Capital appreciation on securities sold or revalued before special adjustment	44,650
Interest earned on the carry-forward from the previous year.	25,507

£153,864

We have declared out of this a compound reversionary bonus for the year of 44s. per cent., 2s. more than for the previous six years, and the highest in the history of the society. This bonus will cost, including interim bonuses already paid, £89,667, thus leaving a balance of about £64,000 for strengthening the society's position in various ways, and adding to the carry-forward.

Out of this balance we have added £31,483 to the actuarial reserves. This is made up of

a number of items, in particular an increase in the reserve for annuities in accordance with the newest tables. We are also writing off about £11,000 from our Stock Exchange securities. These securities are usually valued at their selling prices at the end of the year, less accrued interest. But we have thought it prudent to make some further provision in the case of securities where the dealings are not very active, with the result that a seller who comes to market runs the risk of having to take something less than the quoted selling price. After making these provisions there remained a balance of £20,358 to be added to the carry-forward, which is thereby raised to £595,648, being 15.9 per cent. of our liabilities.

CAPITAL APPRECIATION OF INVESTMENTS.

We have had a long series of successful years as regards the capital appreciation of our investments. But a year is bound to come sooner or later when we shall suffer some degree of depreciation, possibly for reasons quite beyond our control. Our large carry-forward, mainly built up out of capital appreciation, places us in an exceptionally strong position to meet any such circumstances.

Our expense ratio has fallen from 15.3 per cent. to 12.7 per cent. But, as was also the case, though in a less degree, last year, this is largely explained by the abnormal swelling of our premium income from single-premium policies. Apart, however, from this disturbing factor there has been a real reduction in our expense ratio, which would have fallen by about $\frac{1}{2}$ per cent. if single premiums were eliminated from the revenue accounts of the last two years and equivalent annual premiums substituted. The expenses of management, apart from commission, which has naturally increased with the new business, and the large amount of single premiums, are actually about £1,000 less than last year.

As is stated in the board's report, we have not during the year written directly a single policy on the now popular basis of lending to the policyholder 90 per cent. of his single

premium at 5 per cent. interest or thereabouts. Two or three reassurances of this kind, which we have taken from other offices, are special cases, where the terms regarded as a whole were advantageous to the society. If, however, we were to do any large proportion of our total business on the terms usual for this class of policy, we could not earn profits at our present rate or even earn our present bonus, so that, with-profit policies of this type, since they cannot contribute proportionately to the society's surplus, are not to the society's advantage.

Our efforts during the year to reduce the expenses involved in new business by increasing the average size of our policies, and in other ways, have been successful, the average policy rising in amount from £846 in 1924 to £1,176 in 1925. We have twice lowered the rates for non-profit policies, with a view to encouraging such business, and have increased those for with-profit endowment policies, which were too low relatively to those for whole-life policies. We have also closed down during the year one branch which has proved expensive in proportion to the business obtained.

INCREASED RATES OF INTEREST.

Let me now turn to the investment side of our business. Both the gross and net rates of interest earned are very slightly better than last year—at £5 6s. 9d. gross and £4 11s. 6d. net. We should have earned a higher rate of interest if we had not held an unusually large proportion of our assets in British Government securities—at the end of the year more than two-thirds of our total investments in Stock Exchange securities were so held. It is not the policy of the board to hold so large a proportion of our funds in this way as a general rule, and the possibility of a transfer into other securities, which will yield on the average a somewhat higher rate of interest, represents a considerable reserve of potential earning power.

Net capital appreciation has amounted this year to £33,800, being about 16s. per cent. on the mean fund of the year. Thus in interest and appreciation together we have earned about 5½ per cent. per annum, free of income-tax. This is not so high as the corresponding rate of about 7½ per cent. per annum, free of income-tax, which we earned on the average of the preceding six years. Nevertheless, your board are well satisfied to have achieved so good a result in the somewhat difficult conditions for investment which have marked the past year.

How difficult it has been to secure a satisfactory net return, after allowing for appreciation and depreciation during the year and for income-tax, is shown by the indexes of securities currently compiled, which indicate that typical gilt-edged investments and other first-class fixed-interest securities have depreciated in capital value on the average by not less than 2 per cent. For example, the net return on Three-and-a-Half per Cent. Conversion Loan for the year, after writing-off depreciation, has worked out at a negative figure; on Five per Cent. War Loan it is only about 3 per cent; and on Commonwealth of Australia Five per Cent. (1935-45) it is slightly less. I estimate that first-class, long-dated, fixed-interest securities have not yielded, on the

average of the whole class, above 2 per cent. for the year, after writing-off depreciation and allowing for income-tax. In face of such conditions, your board has again pursued throughout the year an ultra-cautious policy chiefly aimed at the avoidance of depreciation, and this policy has again been justified by its results.

THE LONDON MONEY MARKET.

Moreover, the difficult conditions are by no means at an end. Success in the investment of insurance funds mainly depends on anticipating, so far as possible, the course of the rate of interest. Unforeseen fluctuation in this rate is the one factor which is capable of seriously upsetting our calculations. If only we knew for certain what the course of the rate of interest was going to be, whether high or low, we could act without hesitation. But as things are, it is particularly difficult to take up a confident attitude.

On the one hand, the view is commonly held—though I am not sure that I myself agree with it—that with the buying on account of sinking funds and the unceasing flow of new savings, the long-period trend of interest rates will be assuredly downwards. On the other hand, the London market is at present out of equilibrium with the rest of the world, and the events which will attend the gradual restoration of equilibrium are far more important for the time being than any considerations which relate to the long-period trend.

This country is not yet in financial equilibrium, and that is the central financial fact of the moment which it would be rash to ignore. The terms on which London is ready to lend overseas are so attractive to borrowers that the outflow of investment exceeds the surplus which our exports are capable of providing—after making allowances for other items—so long as British gold-costs of production, as resulting from the re-establishment of the exchange at the pre-war parity, remain at their present relatively high level. Unless the United States comes to offer more attractive terms to borrowers than ours, or unless gold-costs of production abroad, particularly in Europe, rise materially, it is evident that sooner or later we shall be compelled to raise our terms as lenders or to force down our costs as producers, or both. Now it is difficult to see how either of these results is to be attained except through a *régime* of dear money, which will have other undesired consequences. A period when interest is rising and profits are falling hits the owner of previously invested funds both ways; for the prices of both bonds and shares will tend downwards. The mere possibility of a development along these lines must naturally breed a high degree of caution in anyone who is responsible for the handling of large funds.

INFLUENCE OF INCREASED BANK RATE.

But this is not the end of our perplexity. If we knew when the readjustments required to restore equilibrium were coming, we could lay our plans accordingly. But the experience of the past year has shown that the final adjustments may possibly be delayed for some little time. Only a very slight progress has been made towards the adjustment of interest rates in the past year, and almost none at all towards the adjustment of gold-costs of pro-

duction. We have been enabled to put off these adjustments owing to the attraction to London of international bank balances, partly as a result of the restoration of the gold standard and partly by the maintenance of dearer money here than in New York. The increase of Bank rate has been very ineffective in deterring foreign investments and in lowering costs of production, but very effective indeed in attracting floating balances. But obviously it is not possible to go on indefinitely balancing the national account in this manner.

We have made two additions to the board during the year, of which we shall invite your confirmation in a moment—Mr. Geoffrey Marks and Sir William McLintock. Mr. Geoffrey Marks has been actuary and manager of the society, a post which he will still retain, since 1893. You are all aware of the great services which he has rendered to the society, and how the foundations of its exceptional prosperity have been entirely laid during his long *régime* and in accordance with his conceptions. (Cheers.) All the other members of the board are his juniors in the service of the society, and most of us, I think, have owed our first introduction to the society to his friendly offices. Sir William McLintock, who was a member of the Royal Commission on the Income Tax, and has given to the State much other valuable service, is one of the most eminent and accomplished accountants in London. He will bring to the board a type of knowledge and experience which we have hitherto lacked.

I will now move the adoption of the report and accounts.

Mr. CHARLES T. DYNE BURCHELL (deputy chairman) seconded the motion, which was carried unanimously.

The CHAIRMAN then moved the confirmation of the appointments as directors of Sir William McLintock, K.B.E., C.V.O., and Mr. Geoffrey Marks, C.B.E., F.I.A.

The motion was seconded by Mr. BURCHELL, and unanimously approved.

On the motion of Mr. WILDE, seconded by Mr. A. W. BURCHELL, the retiring directors, Mr. John Maynard Keynes, Mr. Walter Thomas Layton, and Mr. Gordon Leith, were re-elected.

Mr. HIBBERD moved that Mr. G. S. Pitt and Messrs. Ball, Baker, Ash, and Co. (formerly Messrs. Ball, Baker, Cornish, and Co.) be re-elected auditors of the society.

Mr. COUTTS seconded the motion, which was unanimously approved.

VOTE OF THANKS.

Mr. PITT then proposed that a cordial vote of thanks be given to the chairman, the board of directors, and to the staff for their services during the past year. It should never be forgotten, he said, that the splendid results which had been put before them in such an exceptionally able manner by the chairman were due to the fact that the society was controlled by a body of experts, who, as a whole, in his opinion, formed the strongest life assurance board in London. They had one of the greatest expert economists, they had leaders in the actuarial world, in the legal profession, in finance, and in administration, and that was a matter of outstanding importance to the society. In his view it was certain that while the human factor had anything to do with the matter the policyholders of the society could look forward with confidence to the future. (Hear, hear.)

Mr. LEVINE seconded the motion, which was unanimously approved.

The CHAIRMAN briefly replied to the compliment, 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.]

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