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COMPANY MEETINGS

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NATIONAL MUTUAL LIFE ASSURANCE SOCIETY

A SATISFACTORY STATEMENT

BONUS POLICY

APPRECIATION IN VALUE OF INVESTMENTS

A NEW METHOD OF VALUATION

MR. J. M. KEYNES'S SURVEY

The ONE HUNDRED AND THIRD ANNUAL GENERAL MEETING of the National Mutual Life Assurance Society was held yesterday at the Society's House, 39, King Street, Cheapside, London, E.C.

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

The ACTUARY and MANAGER (Mr. G. H. Recknell, F.I.A., F.F.A.) read the notice convening the meeting, the minutes of the previous meeting, and the auditors' report.

The CHAIRMAN.—Gentlemen, it now falls to me to move the adoption of the report and accounts. The new business which we obtained in 1932 shows an appreciable falling off, compared with recent years, at £536,806. Our new business organization has not had an easy task during the past year, as, apart from the abnormal conditions which have prevailed, there is no doubt that the postponement a year ago of our

valuation and bonus distribution has affected our new business. I am hopeful, however, that these special difficulties may now be at an end, since my statement of our position to-day is, I think, one of the most satisfactory which it has fallen to me to make since I have been chairman.

In connexion with our new business, I would draw your attention to several new schemes of assurance introduced during the past year and described in the annual report. In particular we have introduced, in conjunction with an old-established building society, a scheme for granting mortgages on house property, which combines the benefits and protection of life assurance with the facilities provided by a building society.

IMPROVED POSITION

It will be within your memory that in my speech last year I stated that we had suffered during 1931 a depreciation and realized loss on our investments equal to 15.8 per cent. of our Stock Exchange securities and 11.8 per cent. of our total assets. I expressed the belief, however, that this might be the reflection of purely temporary conditions and that it would be wise to postpone our valuation until the real position was clearer. I am glad to report that the advisability of postponement has been borne out by the subsequent course of events.

During the past year we have not only recovered the whole of the depreciation and realized loss incurred in 1931, but have also secured a useful balance of profit, amounting to £33,527 over the two years taken together. Indeed, the appreciation and realized profit on our investments which we have secured during 1932 amounts to no less than £642,541, being 18.3 per cent. of the mean fund employed in Stock Exchange securities and 14.1 per cent. of our total mean assets. It may be interesting to mention that the appreciation has been fairly evenly spread over our fixed-interest securities and our Ordinary shares, having been 17.6 per cent. in the case of the former and 22.8 per cent. in the case of the latter.

Comparison between the assets in the balance-sheets of 1931 and 1932 is affected by the fact that the 1931 figures are based on the market prices of December 31, 1930. On this basis,

the principal changes have been an increase in British Government securities from £985,000 to £1,329,000, a further reduction in foreign Government securities from £219,000 to the very small figure of £45,000, and a decrease in our Ordinary shares from £747,000 to £679,000, which is about 12 per cent. of our assets. Our investment in British Government securities is considerably greater than we should consider advisable in normal times, and we propose to reduce it as favourable opportunities offer.

I have been accustomed in past years to state our average earnings over the post-War period from interest and capital profits combined after writing off the whole of any realized losses and depreciation. Over the past 12 years this figure works out at 5.65 per cent., free of income-tax, and the interest included in this figure is the main source out of which our substantial bonuses have been paid.

RATE OF INTEREST EARNED

Turning to the items which make up our trading profit during the past year, the net rate of interest earned has declined from £4 9s. 11d. per cent. in 1931 to £4 5s. 8d. per cent. Since our funds at the beginning of the year were taken for the purpose of calculating the amount of the mean fund at the prices of December 31, 1930, the 1932 interest yield approximately reflects the present level of fixed-interest securities, though any further fall in the general level of interest would naturally affect our interest yield in 1933. On the other hand, our unusually large holding of British Government securities represents a potential source of increased income in the future as and when we are able to reinvest in higher yielding securities.

I may add that our long-established practice of showing our Stock Exchange securities at market prices has the effect of throwing up a rate of interest return which, by fully reflecting current conditions, may tend, in times of rising prices, to compare somewhat unfavourably with that shown by companies which use their appreciation to form a separate investment reserve fund or allow it to remain as a hidden reserve. Nevertheless I feel that the maintenance of interest yields at a satisfactory level may be the severest task facing the managements of life offices in the next few years. On grounds of public policy one hopes to see a further substantial reduction in the current level of interest, which, apart from income-tax deductions, is still somewhat high even on pre-War standards, and much too high in present circumstances. But the decline will, if it occurs, present the business of life assurance, which is so dependent on the results of compound interest, with a serious problem affecting the relationship between existing rates of premium and of bonus.

I may add that your board have been fully alive to this prospect for some time past and have done what they could to protect the society against the risk involved. In my annual speech two years ago I said "I should be disposed to predict with great confidence the beginning of a substantial downward movement" in rates of interest; and last year I remarked that, while by selling our long-dated securities we might have avoided some of the depreciation then incurred, and have given in this way a superficial appearance of caution, "it would have remained a

gamble whether we could have got back again into permanent investments at just the right moment." It is sometimes the case that activity to avoid the appearance of temporary depreciation is, on a long view, the opposite of caution; and the satisfactory results of last year have been largely due to our steadfastness.

SUBSTANTIAL MORTALITY PROFITS

Our mortality profits in 1932 were substantial—more than double those of the previous year—the incidence being unusually favourable and the actual amount paid in claims by death—namely, £149,311—the lowest in any year since 1926. Both expenses and commission payments show an absolute saving, though the reduction in the latter is due to the decline in the volume of new business. The result is seen in a decline in our expense ratio from 13.7 per cent. of premium income in 1931 to 12.7 per cent. in 1932.

Bringing the above and other sundry items together, our trading profit for the two years 1931-32, calculated on the same basis as in previous years, has been as follows:—

Net miscellaneous profits from mortality, &c.	£124,877
Interest earnings in excess of 3 per cent. on mean fund excluding carry-forward	136,764
Interest earned on the surplus carried forward from 1930	18,076
	<u>£279,717</u>

In view of these results your board have felt sure that you would wish them to make the valuation and distribution of bonus, postponed from last year. It would be foolish to pretend that the prospects are yet clear or that we have escaped for certain from the phase of violent fluctuations in the financial and economic world. But on any test, however stringent, which can be reasonably applied to the actual results of the past two years, the bonus has been comfortably earned, and it should, therefore, be distributed. A board which sought to make provision against wholly uncertain and unpredictable contingencies, arising not out of its own affairs but out of those of the world at large, might never declare a bonus at all.

BONUS RESERVE VALUATION

This being so, our actuary has given anxious consideration to the question whether the time has not come for changing over from the old-fashioned and now somewhat misleading methods of valuation, in which we have followed tradition for many years past, to the more scientific method, already adopted by one or two offices, known as bonus reserve valuation. In accepting his advice that we should make this change we have done so with the more satisfaction from the fact that the originator of the new method, Mr. Coultts, now manager and actuary of the Provident Mutual, was formerly a member of our staff. (Applause.)

The technical details of the new method have been explained at length by the actuary in his valuation report, which you have already received. You will have seen that, while the reserves required by the new method do not differ very greatly from those required by the old

method, they are slightly more stringent, requiring us to set aside out of profit an additional sum of nearly £20,000.

THE CHANGE SUMMED UP

If I may venture as a layman to sum up the essence of the change I should do so as follows:—

The estimated liability under a life policy consists in the excess of the present value of the sum assured, together with bonuses already declared, over the present value of the future premiums payable, the "present value" being calculated on the basis of certain assumptions which may or may not be realized. There should, therefore, be a substantial margin over and above the sum thus estimated in order to provide for unforeseen contingencies which might upset the expectations upon which the estimate has been based.

When a life office values its liabilities in order to ascertain what surplus is properly available for present distribution, it must not take credit for this margin, because if bonuses were to be declared corresponding to it the margin would be used up and the provision would have disappeared. Thus actuaries have to devise some method of distinguishing between this undistributable margin and the surplus over and above it, which is properly available for immediate distribution. The method most commonly adopted in the past has ensured that the margin required to meet future contingencies is withheld from immediate distribution, by adopting arbitrary assumptions as to rates of interest, mortality, &c., so much less favourable than those actually experienced as to bear but little relation to them.

The result has been to make it difficult even for an expert to assess what the net provision arrived at in this way really amounts to. For this reason it has become common for actuaries to make at the same time for their own guidance a supplementary valuation based on assumptions which, while distinctly conservative, are in reasonably close relationship to the facts. There is then no difficulty in setting up an additional specific reserve against unforeseen changes in terms of the future rate of bonus for which this margin will provide each year if no adverse circumstances arise. This method, which is appropriately known as the bonus reserve method of valuation, gives a scientific measure of what the provision which the office is making really amounts to. In our own case the reserve which we are making is one which will provide bonuses of 30s. per cent. per annum during the lives of our fully participating policies, and 15s. in the case of our low premium policies, if the assumptions on which the valuation is based are realized.

A MORE ADAPTABLE METHOD

I have said that the assumptions as to future rates of interest, mortality, and expenses, while in a definite relationship to present experience, are made conservatively. This is illustrated by the fact that we are now able to declare for the years 1931 and 1932 bonuses, not of 30s. per annum, but of 42s. 6d. on our whole-life and 37s. 6d. on our endowment assurance fully participating policies. Moreover, these rates are comfortably within what we are earning in present conditions, and have been declared without drawing upon the results of our favourable mortality, our low expenses, or our capital appreciation in the current year. Our actuary is satis-

fied that they can be maintained in future, unless there is a considerable further fall in the net rate of interest or serious developments, affecting all institutions alike, in the financial circumstances of the world and of this country. Furthermore, if important changes occur hereafter which appear to be of an enduring character, our new method of valuation is more readily adaptable to them than were the rigid assumptions used previously.

I may mention that if, as we hope, we can maintain the rates of bonus now declared, the results will be even more advantageous to policyholders than are those of policies which have been in force for a period of years and are now maturing for payment.

Your board have considered carefully whether we should now return to the routine of annual valuation and distribution, which, on general grounds, we much prefer. But, for the reasons given in the actuary's report, we think that it would be better not to do so at present. We cannot be sure that we are yet immune from violent, temporary fluctuations in security values, and we believe that it conduces to greater equanimity in investment policy if we have less anxiety as to the precise market value of our securities over short periods; but we shall, of course, continue as in the past (though there are but few offices which follow this course) to inform you at each annual meeting of the market value of our securities at the end of each year.

RETIREMENT OF MR. MARKS

During the year Mr. G. H. Recknell, who had succeeded Mr. Geoffrey Marks as actuary in 1928, has also succeeded him as our chief officer. I am glad to say that Mr. Marks remains on the board, but he has ceased to be our chief officer, after holding that position for nearly 40 years. The National Mutual, as it is to-day, is largely his creation. (Hear, hear.) He has been, indeed, our second founder. (Hear, hear.) At the close of to-day's proceedings I shall ask you to approve the acquisition by the society of an admirable portrait of Geoffrey Marks, hung in this room to-day, painted by Mr. Henry Lamb. Mr. Marks has devoted all his gifts of mind and character and temperament to this institution and its problems and to the individuals who, even in the case of so abstract a thing as a life office, really constitute it. (Hear, hear.) He has been a great educator, as the *personnel* of other life offices in this country exist to testify, a wise innovator and pioneer, and a beloved human being. (Hear, hear.) He carries with him into his retirement our affectionate best wishes. (Applause.)

Mr. CHARLES T. DYNE BURCHELL (deputy chairman) seconded the resolution, and, after the CHAIRMAN and ACTUARY had replied to some questions, it was carried unanimously.

The CHAIRMAN proposed the re-election of Mr. E. H. Davenport, who had been appointed a director during the past year.

This was also seconded by the DEPUTY CHAIRMAN, and unanimously approved.

The retiring directors (the Hon. Francis N. Curzon, Mr. Oswald Toynbee Falk, C.B.E., and Mr. J. M. Keynes, C.B.) were re-elected and the auditors (Messrs. Ball, Baker and Co. and Messrs. Bolton, Pitt and Breden) were re-appointed.

The CHAIRMAN said that he now wished to ask those members present to sanction the acquisition for the society of the portrait of Mr.

Geoffrey Marks, which was hanging on the wall of the meeting room. They were all extremely sorry that Mr. Marks was not with them that day owing to indisposition. (Hear, hear.)

He proceeded to read a letter from Mr. Marks, in which that gentleman said how sorry he was at being obliged to miss that meeting, which was the first one for nearly 50 years at which he had not been present in one capacity or another. He had looked forward to an opportunity of saying farewell for the past and expressing his hopes

for the future and also of thanking the members of the board for the kindness, consideration, and forbearance which they had shown him throughout his long connexion with the society. He felt quite confident of the future of the society under his successor. (Applause.)

The meeting unanimously sanctioned the acquisition of the portrait and the proceedings terminated with a cordial vote of thanks to the chairman and directors, proposed by Mr. C. C. BAKER, seconded by Mr. G. S. PITT.

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