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COMPANY MEETINGS

Thursday, January 31, 1924.

NATIONAL MUTUAL LIFE ASSURANCE SOCIETY.

RESULTS OF THE QUINQUENNIUM RECORD SURPLUS.

MR. KEYNES ON THE OUTLOOK.

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

Mr. JOHN MAYNARD KEYNES, C.B. (chairman of the Society), 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:—Gentlemen.—Before proceeding to our main business of to-day—the results of this quinquennium—I will deal briefly with the figures of the past year.

The amount of new business obtained slightly exceeds that of 1922, but the more than proportionate increase in the amount of new premiums indicates that our business has been more largely of the type of endowment assurance than was the case in 1922. The claims by death are a little up, but there remains a substantial actuarial profit on the mortality of the year. The small, but satisfactory, decrease of $\frac{1}{2}$ per cent. in the ratio of expenditure to premiums is due principally to a growth in the premium income of more than £13,000. The accumulated funds have increased by more than £140,000. The average gross rate of interest earned on these funds, excluding reversions, which are valued on a 6 per cent. basis, was £5 2s. 5d. per cent. before deduction of income-tax, as compared with £5 1s. 1d. in 1922. The net rate of interest was £4 6s. 3d. per cent., as against £4 12s. in 1922, the difference being accounted for by the fact that in 1922 there was brought

into credit a considerable sum reserved against a claim for income-tax, which was finally decided in favour of the Society.

Since we were criticized in some quarters last year for bringing into account what are called "unrealized profits," I may explain that your board act on the principle that the balance-sheet of the Society should show its exact position at the close of each year as nearly as it can be ascertained. The members are entitled to this information without any concealment or reservations, and when the position has been exposed, as it is in the valuation balance-sheet included in the actuary's report, they are in a position to see for themselves the true surplus at the disposal of the board.

INVESTMENT POLICY.

The revaluation of the Society's assets, carried out on this principle, shows a total appreciation of £72,200 on the year, of which £28,300 has accrued on Stock Exchange securities.

The average prices both of gilt-edged securities and of other investments, as shown in the index numbers compiled by various authorities, were almost the same—within 1 per cent.—on January 1, 1924, as they were on January 1, 1923. This is in accordance with our own experience. But in spite of this relative stability of prices, the year has not been an easy one for investment. Throughout almost the whole year your board have been pursuing what can be best described as a waiting policy. Underlying conditions have been strongly in favour of a marked revival of trade, and last spring it looked as though these were asserting themselves. Political conditions, particularly abroad, but more recently at home also, have, however, operated in the opposite direction. In face of such conflicting tendencies it has been difficult to see one's way clearly. We have regarded the avoidance of loss on the Society's investments as our first object; and, as things have turned out, your board's hesitation to take a decided view has been justified by the facts. It will be seen in the report that approximately half of our

Stock Exchange investments are British Government securities. It is interesting to recall that ten years ago this Society held no British Government securities.

The net result of the year, all sources of profit being taken into account, is an addition of £142,000 to our surplus—a highly satisfactory figure.

REVISION OF ARTICLES.

There have been no changes in the directorate during the year, but Mr. A. K. Tharp, the deputy-chairman of the Society, intimated to his colleagues at the close of the year that he would prefer not to seek re-election. Mr. Tharp has been connected with the Society for 35 years, for the last 13 of which he has been deputy-chairman. His colleagues have accepted his resignation with great regret, and I am sure that you would like me to convey to him your good wishes for him in his retirement. (Hear, hear.) I may mention that the actuary has told the board that he has contemplated for some time a revision of the Society's articles of association, and possibly the promotion of a new Act of Parliament. It is probable, therefore, that you will be called together later in the year to consider the alterations in our constitution and certain other matters, which must be submitted to you at two special general meetings.

PROFIT OF THE QUINQUENNium.

I now come to the results of the quinquennium as a whole. I am in the fortunate position of being able to announce to you one of the largest surpluses (in proportion to liabilities) in the history of life assurance—namely, £912,360, being 28.8 per cent. of our liabilities—a sum far exceeding anything in the previous history of the Society, and, I believe, far larger than any surplus which has been previously shown by an office of the size of the "National Mutual." Deducting the surplus brought in—namely, £184,668—the profit of the quinquennium amounts to £727,692, equivalent to a net return on the mean fund—in addition to 3 per cent., the valuation rate of interest—of £4 12s. 6d. per cent. per annum, so that during the past five years our aggregate earnings, after paying all expenses, have been at the rate of £7 12s. 6d. per cent. per annum, free of tax.

SPECIAL PROVISIONS.

In dealing with this unusually large sum, your board have considered, in the first place, whether there were any special provisions or writings down to effect which it would be proper to take advantage of at this opportunity. The result is shown in the actuary's report. We have appropriated a sum of £65,000 to form a fund which will cover present and prospective liabilities in respect of staff pensions. We have further effected special writings down, beyond those required by the valuation, to the amount of £29,771. These mainly consist of two items: (1) In 1902 we made a large advance on mortgage, repayable

only by instalments, the last of which is not due until 1952. The rate of interest then obtainable on mortgage securities of the highest class was very low, and the board have decided to write down the book value of this security to such a figure that the interest paid by the borrowers will yield a return of 5 per cent. on the adjusted value, the instalments of principal being accumulated at 3½ per cent. net. There is no doubt whatever that we hold ample security, but we take the view that mortgage securities which cannot be called in must fluctuate in value with the current rate of interest, just as redeemable bonds or debentures fluctuate, and that in valuing them as assets it is preferable to adjust them according to that standard. (2) The other item, nearly £10,000 has been written off the Society's premises. It is approximately the amount which we have expended on the alterations made when we took over the house at the corner of Cheapside, and although we are advised that the total value of the property has increased by more than this amount, we have decided not to take credit for the sum in question. A further sum of about £42,500 has also come out of the surplus of the quinquennium and been paid away in interim bonuses to those policies which became claims during the last five years. After deducting these various sums, there remains an available balance of £775,101.

The proper and prudent disposal of this surplus has been the subject of much anxious thought and discussion between the board and their actuary. Their final conclusion is expressed in the valuation report.

CLASS "A" POLICYHOLDERS.

Class "A," which is treated separately, is a closed series into which no new policyholders have been admitted for many years. The method of division in this class is prescribed by our Act of Parliament, and has been followed as in the past, but the directors are considering whether it would not be to the interest of the remaining policyholders in the class that they should be absorbed in the general body of participating policyholders, possibly with a guarantee that their future profits should never be less than would be sufficient to extinguish the annual premiums during the remainder of their duration. I may add that no action of this sort will be taken without the consent of the policyholders in the class.

RATE OF REVERSIONARY BONUS.

The reversionary bonus on "National Mutual" policies will be at the rate of 42s. per cent. per annum compound, that is to say, calculated on sums assured and bonuses existing at the end of 1923. The usual adjustment for differences of premium on policies dated prior to the amalgamation will be made. The interim bonus on policies which may become claims before December 31 next will be at the full rate now declared, if a whole year's premium has become due and been paid during the year and prior to death or maturity.

The board have further considered the advisability of giving a retrospective bonus for

the period of 1913-18—a course the possibility of which was contemplated in the actuary's report of 1918. The board have, however, decided against this course, partly on general grounds, and partly in view of the declaration in the following paragraph from the annual report for the year 1919 which was adopted by the members:—

“The directors have given the most careful consideration to the question of a distribution of surplus in respect of the quinquennium 1914-18. The continued depreciation in values and the general uncertainty of the outlook have made them decide to follow the course adopted by other offices of the highest standing and not to add to the Society's liabilities by declaring a bonus for that quinquennium. They have, therefore, finally determined to make no general distribution of surplus in respect of the valuation period 1914-18.”

ANNUAL DISTRIBUTIONS OF SURPLUS.

The existence of an unusually large surplus, such as we have on this occasion, is bound to give rise to difficult questions of distribution policy, how to assess the just claims of the present policyholders against the interests of the Society as a permanent institution, older than the existing members yet with longer prospects of life; and how best to combine the advantage of continuity and regularity with the rapid fluctuations of the modern world. Such considerations, amongst others, have weighed with us in reaching the decision, which will probably commend itself

to all of you, that, in future, distributions of surplus shall be made to the policyholders annually instead of at five-year intervals as in the past. Not only will this arrangement give members the satisfaction of receiving a definite bonus every year, but it will afford an opportunity for more frequent stock-taking and for closer and more continuous examination of all the conditions which should be considered in determining the problems of a distribution of surplus.

“POSITION OF UNEXAMPLED STRENGTH.”

At any rate, carrying forward an undistributed surplus equal to about 15 per cent. of our liabilities, we are in a position of unexampled strength to meet the ups and downs of the next few years. These figures entitle me to emphasize again the opportunities which our institution offers for the management of the savings of its members, and to urge each of you to increase his stake in so well-secured a property by taking out additional endowment or other policies up to the full capacity of your income.

I beg to move the adoption of the report and accounts. (Cheers.)

The resolution was seconded by LORD MONTAGU of BEAULIEU, K.C.I.E., C.S.I., and carried unanimously.

Lord Montagu of Beaulieu and Mr. Charles T. Dyne Burchell were re-elected directors, and the auditors (Mr. G. S. Pitt, F.S.A.A., and Messrs. Ball, Baker, Cornish, and Co.) were reappointed.

The meeting closed with a cordial vote of thanks to the chairman and directors.