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# The Times

## COMPANY MEETINGS

Thursday, March 3, 1932

### NATIONAL MUTUAL LIFE ASSURANCE SOCIETY

A YEAR OF EXTRAORDINARY ANXIETY

REDUCED EXPENSE RATIO

THE BOARD'S INVESTMENT POLICY

LOW PERCENTAGE OF DEPRECIATION

#### MR. J. M. KEYNES' SURVEY

The 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 SECRETARY (Mr. G. H. Recknell, F.I.A., F.F.A.) read the notice convening the meeting and the report of the auditors.

The CHAIRMAN, in moving the adoption of the report and accounts, said:—The new assurance business which we obtained in 1931, following upon a record year, showed a modest falling off at £705,979 net. Our expense ratio at 13.7 per cent., compared with 14.7 per cent. in the previous year, showed a very satisfactory reduction, though this was caused to some extent by the smaller amount of new business transacted. The gross rate of interest earned was £5 11s. 1d. per cent., a rate satisfactory in itself but not quite so good as in the previous year, owing partly to a transfer of resources

from Ordinary shares to gilt-edged securities. As a consequence of our unusually small holdings of foreign bonds the loss of interest due to defaults was negligible, amounting to about 1 per cent. of our total interest receipts.

#### THE INVESTMENTS—INCREASED GOVERNMENT HOLDINGS

Owing to our decision not to make an actuarial valuation on this occasion, a matter to which I will return in a few minutes, the usual valuation of our Stock Exchange securities at their market values on December 31, 1931, does not appear in the report which you have received. But the decision to postpone the actuarial valuation is no reason for altering our practice, long established in our case, though there are many offices which do not follow it, of stating annually the market valuation of our assets. During the year 1931 our depreciation and realized loss combined were equal to 15.8 per cent. of the mean fund invested in Stock Exchange securities or 11.8 per cent. of the mean total assets. These figures leave out of account both the carry-forward at the end of 1930 and the trading profit of 1931. The principal changes in the distribution of our securities between different classes of investments have been a reduction of our Ordinary shares from 16.2 per cent. to 14.3 per cent. of the total assets, and an increase of British Government securities from 15.8 per cent. to 18.8 per cent. Our holdings of foreign Government and municipal securities are, as I have said, very small at 4.3 per cent. Our investments in the United States have never been large, and were 5.1 per cent. at the beginning of the year and 5.3 per cent. at the end of it.

The past year has been, of course, one of extraordinary anxiety for all those concerned with the safe investment of large funds. The actual degree of depreciation suffered by every class of security has been unprecedented. Moreover, our difficulties have been considerably increased by the "badness" of markets, in the sense that it has often proved impracticable to carry out desired changes of investments, whether by buying or selling, at the ostensible market price or sometimes even at

any reasonable figure. It has been, in particular, a testing time for a society such as ours, which has been a pioneer of methods of investment approaching more closely to those of an investment trust than is the case with most life offices; which holds an unusually large proportion of its funds in market securities subject to a fluctuating valuation, as compared with mortgages, for example, the book value of which is kept unchanged irrespective of market conditions; which has always taken pride in stating the exact market value of its investments, and which, therefore, has had no concealed investment reserve behind which the board could take refuge in bad times.

#### INVESTMENT AND MARKET VALUES

How have we emerged from this test? In comparison with leading investment trusts we have certainly done extremely well, with a much lower percentage of depreciation than the typical trust company. A comparison with the average of the life offices can, unfortunately, never be made, since too few of them state exact figures of the market value of their investments at the end of each year. But I should suppose that we have done slightly worse than the average, since one would expect the market valuation of investments distributed as ours are to be somewhat lower, at the bottom—or at what one hopes may be near the bottom—of the greatest industrial slump in history, than that of a holding in which Ordinary shares are a much smaller proportion and mortgages and properties a much larger proportion of the whole. Nor need this disturb us. For if the slump continues no kind of asset, however insensitive its nominal valuation may be over a short period, will escape calamity in the end; while if recovery comes, the former relative valuations will be restored. Even to-day one would wonder what the consequences would be if all properties and mortgages had to be valued on the basis of an actual "bid" price on the analogy of Stock Exchange securities. Moreover, it may be considered a point in favour of our policy under existing conditions that we should be holding a fair proportion of Ordinary shares which represent "real" values, reduced though it is from the figure of two years ago.

At a moment of extreme deflation, such as the present, when commodity prices are at so low a level that a substantial recovery in them, sooner or later, is the only alternative to a widespread default of obligations expressed in terms of money, our holding of Ordinary shares represents, for the policyholder who has committed his savings to our care, a stake in the future recovery of things—failing which all investments alike will lose their basis of security—which should prove valuable when the

recovery comes. Meanwhile it is remarkable how comparatively little our holding of Ordinary shares has affected the final results even in present conditions. Our aggregate depreciation on Stock Exchange securities amounted, as I have said, to 15.8 per cent., whilst the depreciation on our fixed interest securities amounted to 13.5 per cent., so that, if we had held no Ordinary shares at all, the amount of our depreciation would have been less by little more than 2 per cent.

#### AN INTERESTING COMPARISON

As a more absolute test it is interesting to compare the results with those shown by the leading index numbers of security prices. Taking the Actuaries' Index as the most comprehensive and modern index available, we may make the following comparison:—

	Actuaries' Index Per cent.	National Mutual Per cent.
Fixed interest securities ..	12	13.5
Ordinary shares ..	23.3	24.9

This comparison, however, does less than justice to our position, since the Actuaries' price indexes do not purport to cover the whole field of investments in which the funds of typical British institutions have been placed. In particular they include no foreign bonds, the losses on which last year were particularly severe; so that we get no credit for our small holdings of these bonds and our avoidance of loss in respect of them. Nor in regard to Ordinary shares is the comparison adequate, since the Actuaries' Index, being limited to concerns operating at least partially in this country, takes no account of the much heavier depreciation suffered by shares of an international character. Lastly, they include no American securities, and therefore fail to reflect the catastrophic fall in their values.

Looking back on the year's operations, we could, of course, have saved depreciation by a wholesale disposal of our Ordinary shares and long-dated fixed interest securities, reinvesting the proceeds in short-dated securities such as Treasury Bills. But even apart from the fact that such a course would have resulted in a certain loss in interest yield of at least 2 per cent. per annum, it would have remained a gamble whether we could have got back again into permanent investments at just the right moment. Indeed, I am sure that this is not a course which an institution ought to pursue which depends on earning a satisfactory rate of interest over a long period of years. My own candid opinion, for what it is worth, may be summed up by saying that we might, with a little better luck or a little better management, have suffered 2 per cent. less in depreciation, but that, in view of the universal character of the collapse in values, we could

not, by any reasonably practicable selection of securities compatible with general long-term policy and the maintenance of our interest income, have done much better than that.

#### POSTPONEMENT OF THE ACTUARIAL VALUATION

I now turn to the actuarial side. As regards the postponement of our actuarial valuation I need not add much to what I said at the special general meeting, at which this course was approved by the members. The prudence of not making final decisions as to distribution based on the momentary conditions of December 31 last has been confirmed by subsequent developments, which have, of course, increased the quotations of our Stock Exchange securities by a very considerable sum. Meanwhile, members may be glad to have the information that after allowing for the appreciation experienced this year up to date, our carry-forward and trading profits virtually suffice to cover the whole of the remaining depreciation without any change in our basis of valuation as published heretofore.

As regards our departure, at least for the time being, from annual valuations, which we and two others amongst life offices not transacting industrial business have been alone in making in recent years, old-fashioned people can legitimately point to the change as being a return to the wisdom of our ancestors. But the root of the matter, as I see it, is one of great importance to all life offices and deserving of even fuller discussion than it has already had. The difficulty lies in combining on the one side conventional and rigid methods of valuation and distribution, which take little or no account of changing circumstances, and on the other, highly sensitive methods of valuation, easily affected by the circumstances of the moment.

#### ACTUARIAL METHODS

As time has gone by, the bases of actuarial valuation have remained largely conventional. An actuary does not base his expectations of mortality on the rate which he and his fellows are actually experiencing. His provision for expenses is not the rate which he is actually incurring. Above all—and of particular importance for my present argument—a rate of interest is assumed which is not only widely different from the rate of interest which the office is actually earning, but, since it never changes, is not only different from the facts but bears no steady relation to them. Over and above these main items, individual actuaries introduce various minor excess provisions into their calculations, and, provided the errors are all on the right side, i.e., on the side of over-statement of liabilities in relation

to assets, as, of course, they always are, valuations become a sort of competition in unverity, the most praiseworthy being those which are based on assumptions the most remote from the facts and which are the most rigidly maintained irrespective of changes in the facts. On the top of this, rates of bonus have also a tendency (which is, however, weakening) to become stereotyped and to respond most reluctantly either up or down to changing circumstances.

Now it is evident that for institutions whose contracts extend over a period as long as human life and for which absolute security is not only a matter of pride but a necessity if they are to perform the functions for which they exist, some (though not, I think, all) of the above customs and practices have great virtue, in so far as they promote caution and the understatement of favourable results, when these results have not yet stood the test of time. But in practice they do not effect these objects in a steady and regular way if they are combined with a totally different method of valuation on the asset side of the balance-sheet. A conventional valuation of liabilities on one side and an actual valuation of assets on the other may lead to highly misleading results. I am not sure that an awareness of this has not sometimes given actuaries a bias in favour of assets which lend themselves to a conventional valuation, because, as there is no published market price for such assets, no obligation is felt to change their book value at every breath of wind that blows upon the Stock Exchange. Mortgages are, of course, a leading example of this type of investment, which also includes, however, most investments other than Stock Exchange securities. But, looked at with an unprejudiced eye, it ought not to be regarded as an outstanding merit in an investment that it has no market price.

The illogical consequences of the prevalent methods are best illustrated by what happens when there is a change in the rate of interest, assuming that capital changes are shown in the revenue account. A fall in the rate of interest actually earned narrows the margin between the actual rate and the assumed conventional rate, i.e., it weakens the basis of valuation. But as in normal circumstances it is accompanied by an appreciation in the market value of fixed interest securities, it increases the carry-forward and thus increases the ostensible strength. On the other hand, a rise in the rate of interest has the opposite effect. It strengthens the valuation, but diminishes the ostensible strength by lessening the carry-forward. I have no solution to offer for this dilemma, but I commend it to the continued attention of the insurance world.

"THE MOST PROSPEROUS COUNTRY IN THE  
WORLD"

I have sometimes ventured at these meetings on some general remarks on the economic situation. This year I find myself moving uneasily between a cautious optimism when I consider the position of this country and a very helpless pessimism when I look abroad. Great Britain to-day is decidedly the most prosperous country in the world, and here the trend seems to me to be slightly in the right direction. But this is not saying much. It is a relief to see the United States at last taking measures to quieten their financial panic. But it is a long step from that to industrial prosperity. As I have said elsewhere, the outstanding difference between the problem of to-day and the problem of a year ago arises out of a financial crisis having been superimposed meanwhile upon the industrial crisis.

THE FINANCIAL CRISIS

To-day it is, of course, an indispensable preliminary that we should relieve the financial crisis. Unless the really desperate situation in Central Europe upsets things, it is legitimate to hope that the first steps in this direction have now been taken. But to me it is unthinkable that we can step straight from the relief of the financial crisis to the relief of the industrial crisis without a cheap money phase intervening. As soon as we have found our feet again and feel ourselves masters of our own position and with our power of international initiative regained, I hope that

we shall move with courage to the relief of international credit, lending boldly and ourselves expanding boldly. For that will be by far the safest course and will offer the best chance of salving the immense sums which we have embarked in foreign investment in former years. The pre-War gold standard worked because it was in truth a sterling standard. When gold went off sterling last September it doomed itself as a currency, at least for the time being. We have been forced, it is true, to step down for the moment from the position of international leadership in finance. But our place has not been taken by anyone else, and I feel confident that, unless we lack the pluck, we shall soon be strong enough to resume our old position with the heightened prestige of holding it in virtue of having surmounted present difficulties and not merely as an inheritance of past accomplishment. (Applause.)

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

On the motion of Mr. E. H. DAVENPORT, seconded by Mr. W. ARTHUR WRIGHT, the retiring directors, Sir William McIntock, C.B.E., C.V.O., Mr. Geoffrey Marks, C.B.E., F.I.A., and Mr. Charles T. Dyne Burchell were re-elected.

Messrs. Ball, Baker, Ash and Co. and Messrs. Bolton, Pitt and Breden were appointed auditors.

The proceedings terminated with a hearty vote of thanks to the chairman and directors and the staff.

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