

THE INSTITUTE OF ACTUARIES

ADDRESS

BY THE PRESIDENT, WILLIAM PENMAN, M.B.E.

[Delivered 18 May 1942]

'A man may write at any time if he will give himself doggedly to it.'

WAR conditions have added to our tasks and duties, whilst reducing the effective time available for their performance. Simultaneously, war conditions have introduced into our lives, I will not say an element of staleness, but a lack of freshness which robs our efforts of spontaneity. But doggedness is not out of place in war time, and I feel it is not entirely inappropriate that I should find myself approaching the task of preparing this address in the spirit of Dr Johnson's dictum and in the hope that on this occasion it will prove to be, in some small measure, true.

I do not think there is a precedent for the delivery of a valedictory address by a President of the Institute, but there was also no precedent for the conditions which made it impossible to deliver an inaugural address in October 1940. As a substitute, a brief 'Presidential Message' was issued in November 1940. A copy of that message, which is reproduced in a recently issued number of the *Journal*, was sent to the Actuarial Society of America, because it contained an acknowledgment of the generous offer, made by our friends in the Society, to take our children into their homes and care for them until the end of the War. As a result, the Association of Life Insurance Presidents in the United States circulated the 'Message' as an official paper to its members, as giving a picture of how a corporate body, such as the Institute, was continuing to perform its functions under war conditions. That action gave me much pleasure, because I regarded it as a great and well-deserved compliment to the Institute.

The bonds of friendship between British and American actuaries were strong before we visited them under the leadership of the late Colonel Oakley in the autumn of 1938. That visit, however, had so enlarged and cemented the friendship, that we felt it incumbent to send to our friends in the United States a message of sympathy when their country was the victim of the dastardly attack on Pearl

Harbour in December last, an attack made by the Japanese under cover of what can now only be regarded as spurious negotiations for the continuation of peaceful relations.

It is appropriate that the messages and the replies, which are formally embodied in the minutes of the proceedings of your Council, be recorded here.

Telegrams were sent to the Actuarial Society of America and to the American Institute of Actuaries, reading as follows:

On this first occasion upon which the Council of the Institute of Actuaries has met since the entry of the United States into the War it desires to convey to the President, Council and Members of the Actuarial Society of America (American Institute of Actuaries) its sympathy with the United States in the treacherous attack made on her, its confidence in the outcome of this grim struggle and its satisfaction that the United States and the British Empire are again closely associated in a great and righteous cause.

The following telegram was received in reply from the Actuarial Society of America:

Thank you for your encouraging message. We are glad that the British Empire and the United States now stand shoulder to shoulder in defense of everything worth while and that we can look forward to ultimate victory, and the following letter was received in reply from the President of the American Institute of Actuaries:

My dear Penman,

In behalf of the Board of Governors and the entire membership of the American Institute of Actuaries I wish I could express proper appreciation of the deep sense of friendship and brotherhood conveyed by your radiogram to us. It is indeed gracious and most thoughtful of the Council of the Institute of Actuaries at its first meeting since the treacherous attack on Pearl Harbour to send us a message at once so sympathetic and so courageous.

May your words of confidence in the outcome of this grim struggle be prophetic! And throughout the days of wrath still ahead of us may the decent citizens of your country and ours be sustained and strengthened by an unfaltering trust in the righteousness of a great cause as we stand again shoulder to shoulder 'for all we have and are'.

Yours sincerely and gratefully,

HENRY H. JACKSON
President.

A statistical record, issued by one of the American Life Offices,

came into my hands recently, in which it is stated that the United States Navy lost nearly 3000 men in the Pearl Harbour outrage—more than three times as many men as it lost during the whole of the previous war. We did well to express our sympathy.

It is usual in a Presidential Address to refer to those members who have passed away since the previous Address was delivered, and it would be ungracious to omit such a reference. Nearly four years, however, have elapsed since Colonel Oakley delivered his Address, instead of the usual two years, and the list, for that and other reasons, contains so many names that it is not practicable to refer individually to all of them.

It is still difficult to realize that so vital a personality as my immediate predecessor and dear friend, Henry John Percy Oakley, is no longer with us. He was head of the party of British actuaries which visited the United States in the autumn of 1938, and, if he had performed no other service to the Institute, his inspiring and inspired leadership on that occasion would have earned him distinction and our gratitude. But that was no isolated instance; his services were numerous and valuable, both within and without our profession. He had been Honorary Secretary, Vice-President, Treasurer and President of the Institute, Chairman of the Students' Society and a prominent member of the Continuous Mortality Investigation Committee. He was a past Chairman of the Life Offices' Association and, at the date of his death, was Chairman of the Insurance Officials' Society. He was also a distinguished soldier and had many other interests. You will all have read Sir William Elderton's admirable memoir in the recently issued number of the *Journal*, which records these things at greater length than is possible here and in language more graceful than I have at my command. All of us who knew Oakley have lost a dear friend, and we older men have lost a valued colleague.

Another Past-President has also died recently. William Peyton Phelps was President in the years 1922-4. He retired from active business in 1930, and, in the nature of things, he was not very well known except to the older members of the Institute, by whom, however, he was held in great affection and esteem. A memoir, written by Mr Lidstone, will be found on p. 448.

There is one other Fellow of the older generation who has passed away, to whom I must refer—Arthur Rhys Barrand.

You have all, I hope, read the memoir contributed to the *Journal* by Sir Joseph Burn. Barrand is remembered gratefully by many actuaries who owe their tuition to him and, like Phelps, he was held in affection and esteem by the men of his own generation and of the generation immediately following. His versatility was extraordinary. He was a qualified electrical engineer, an eminent actuary, a distinguished lawyer, a successful tutor, a local preacher and a politician. He was diligent and successful in business.

Eleven of our members have lost their lives whilst on active service, and two civilian members have been killed as the result of enemy action. Standing here, below the memorial to 82 of our members who fell in the 1914-18 War, and remembering many of them, it is inexpressibly sad to think that, after an interval of only twenty-one years, another generation is passing through a similar trial, and that the lives of our younger members are again being sacrificed in order that the nation, and liberty, may survive. The list may not be complete, and the end is not yet, but I record the names of those who have fallen in humble admiration, with sincere gratitude and with great sympathy towards their near and dear ones:

RALPH BERNARD GOUGH, Student, Telegraphist, H.M.S. *Exmouth*.

Lost at sea, January 1940.

ARNOLD BOYTON HALL, Student, Telegraphist, H.M.S. *Exmouth*.

Lost at sea, January 1940.

JOHN DENTON HARGREAVES, Probationer, Gunner, Royal Air Force.

Killed in air crash in France, 4 April 1940.

JOHN HAYCROFT MEYER, Student. Killed while serving with the

Fleet Air Arm, 24 October 1940.

ERIC ERNEST CRADDOCK PHILLIPS, Student, Sergeant Observer,

R.A.F.V.R. Killed, 3 March 1941.

KENNETH ERNEST PLATT, Student, Pilot Officer R.A.F. Killed in

action, 18 April 1941.

WILLIAM GRAEME BONE, Student, 2nd Lieut. King's Own Royal

Regt. Killed on service with Middle East Force.

GEORGE BOW WATTERS, Associate, Sergeant Pilot R.A.F. Killed,

30 September 1941.

ATHOL CLAUD KENNEDY SMITH, Student. Killed, 7 October 1941

while serving with the R.N.V.R.

ANTHONY FRANCIS NIELSEN LADEFOGED, Student, Pilot Officer.

Killed in December 1941 while serving with the R.A.F.V.R.

NOEL CECIL BRAY, Student. Died, 25 January 1942, while serving with a Bomb Disposal Unit of the Royal Engineers.

Six airmen, three sailors and two soldiers.

In addition, William Elder Gillett, a Fellow, and Arthur Frank Wainwright, a Student, lost their lives in air raids in October 1940.

The Council has waived the payment of subscriptions by members whilst they are serving in His Majesty's Forces. Forty Fellows, twenty-five Associates and two hundred and ninety-eight Students have received the benefit of this concession, and those numbers must therefore represent closely the numbers of our members who are serving in the Navy, the Army or the Air Force. A brief scrutiny of our Students, numbering about 750, indicates that approximately one-half of them either reside abroad or are, for other reasons, ineligible for service, and, therefore, the number actually serving represents a very high percentage of those available. I have not made any similar investigation in regard to Associates and Fellows. Most of them, on account of age or being engaged in responsible work, or for both reasons, are exempt from service in the armed forces and are usefully employed in their usual civilian occupations, supplemented in many cases by such voluntary part-time national service as is possible.

It is a matter for regret that the authorities have not made greater use of the specialized knowledge, of a statistical and financial character, possessed by the graduates of the Institute. I think the country is the poorer. Many, perhaps most of us, have sent the necessary particulars of our qualifications and experience to the Central Registry, and the responsibility rests with those who have not seen their way to avail themselves of the services so willingly offered.

The objects for which the Institute was established are set out in its Royal Charter and include the holding of examinations. The Council, during these war years, has given much thought to the question whether the examinations should or should not be held. There can be no such thing as equality of opportunity in war time—it is doubtful if such equality exists even in peace time—and it has only been possible to preserve approximate fairness of treat-

ment between students in the Forces and those still in civilian employment, and between 'Home' students and those who live overseas. It has to be remembered that a substantial number of our candidates live overseas and that our examinations are held in many parts of the world. During 1940 and 1941 the 'Overseas' candidates, on the whole, were living and working under more or less normal conditions, and it was thought, therefore, that it would be unreasonable to deprive them of the opportunity of sitting for the examinations. The examinations were accordingly held, although it was recognized that the decision placed 'Home' candidates at a disadvantage, compared with 'Overseas' candidates, and that, amongst the 'Home' candidates (or potential candidates), the men remaining in civil employment had an advantage over the men serving in the Forces. It was felt, however, that there was little or no competition, for advancement in professional life, between the 'Overseas' and the 'Home' candidates. It was also felt that the advantage to the men still in civilian occupations, although real, was not so great as at first sight might appear, because, although better placed than their colleagues in the Forces, they were most of them working long hours, and in most cases their opportunities for study were much curtailed. The position was much the same when the arrangements for the 1942 examinations were made. The examinations have accordingly been held, although, in the meantime, the situation in the examination centres in Australasia, Canada, India and South Africa has been changed by the entry of Japan into the War. In view of all the circumstances, however, the Council has decided, I think I may say with great reluctance, to abandon the idea of holding examinations in 1943, and a notice has been issued accordingly.

It was no small achievement to hold examinations in many parts of the world in 1940, 1941 and 1942, and the thanks of all members are due to the Examination Committee and the Board of Examiners for much good work performed under difficult conditions. Think, if you will, of the difficulties and delays which arise to-day in connexion with a simple business transaction between a Life Office in this country and a policyholder in, say, Australia, and you will then be able to realize what it has meant to arrange successfully for examinations to be held on a fairly large scale in Australasia, Canada, India, South Africa and other centres during war time.

The activities of the Institute also extend to tuition, through the medium of the Actuarial Tuition Service—an enterprise in which we have the Faculty of Actuaries in Scotland as a partner. As was very happily expressed by a colleague the other day, tuition is more important than examination, because all an examination does is to disclose whether the tuition has been effective. Our Tuition Service provided originally for both oral and correspondence classes. With so many students in the Forces, oral classes had to be discontinued at the outbreak of War, but the correspondence tuition has been maintained and it is proposed to continue it, notwithstanding the decision that examinations will not be held in 1943. The Tuition Service, under War conditions, makes considerable inroads upon the Institute's finances, but I think the money is well spent and that it would be a tragedy if this comparatively recently established Service were suspended. Its activities can continue only on a comparatively small scale, but any Student or Associate who desires to continue his studies will be able to obtain the necessary correspondence tuition, and I hope many of them will take advantage of the facilities offered.

What I have said, in regard to examinations and tuition, indicates that the Council has done its best, I think with a considerable measure of success, to protect the interests of its younger members in changed and changing circumstances, but I should like to repeat here and to emphasize a paragraph from the 'Presidential Message' already mentioned:

I take this opportunity of placing on record my personal opinion that the interests of these younger men are less in the hands of the Institute than in the hands of our older Members, who occupy Managerial and Administrative positions in the Offices where the younger Members are employed. Further, I venture to point out that this is not entirely, or even mainly, a matter for the future. Care is necessary in the present and some present self-sacrifice—on the part of the older Members—may be necessary if, when they return, the men now serving are to find their positions and prospects unaffected.

The course of training before a man can become a fully qualified actuary is long and arduous and, even in the most favourable circumstances, it is a severe test of character, as well as of the candidate's mental and physical capacities. A break of two, three or even more years in the course of a man's training is a much greater handicap than the mere addition of a corresponding number of years to the

age at which he manages to qualify, and the position which will emerge at the end of the War will call both for careful consideration and for sympathetic treatment. The time is not ripe for such consideration, if only because the magnitude of the problem is not yet known, and, as the subject has not yet been debated by your Council, any views which I may express are personal.

Again, the problem is not entirely a matter for the Institute. I think it may be found desirable to make some temporary concessions in connexion with the examinations, but I should like the Life Offices, and others who employ our members, to consider whether, after the War, they cannot give actuarial students a period of leave on full pay, before they resume their ordinary duties, to enable them, to some extent, to recover the ground which has been lost.

Our Students usually work in Offices and study in their spare time; consequently, if six months' (or even three months') whole-time study were made possible, it would go a long way towards providing compensation for the years which have been lost.

It would be unwise, at the present time, to attempt to elaborate these two suggestions; but it is not too early to think about them, and some preliminary thought may prove to have been very useful, when the time comes to deal with the problem of our returning students.

May I now refer to another matter which affects, in a different way, both our younger and older members?

It must be admitted that a long and very technical training may have a narrowing effect on a man's outlook, and that this tendency is likely to be accentuated if, whilst undergoing the training, the future actuary is also engaged day by day in technical work, itself perhaps of limited scope. That, I am afraid, is a fairly true picture of the early business and professional environment of a number of our members, and the practical point is to determine what steps can and should be taken to overcome, to the extent to which it exists, the tendency to which I have referred.

As the financial Institutions with which our members are connected grow larger, it becomes increasingly difficult for a man to get the general practical training, which he got, almost automatically, a generation or so ago, when those Institutions were much smaller than they are now. I am thinking for the moment

mainly of our Life Offices. The Actuarial Department, where valuations are made and rates are calculated, the New Business Department, where the underwriting is done, the Department which settles claims and pays surrender values, and the Investment Department should all contribute to the practical training of a Life Office Actuary. Under modern conditions, I believe that a more or less systematic exchange of duties amongst the younger men is necessary to secure this end and, incidentally, to secure the best results both for the Offices and for the men concerned. Such exchanges are troublesome, and a certain amount of resolution and self-sacrifice is necessary on the part of the senior men, who have to make the arrangements.

I can imagine that a man, who is qualified in the sense that he is a Fellow of the Institute, may be narrow in his outlook, if he has spent his whole time in a valuation department; but I cannot imagine his outlook being narrow if, in addition to having his qualification as a Fellow, he has had a couple of years' experience in each of the four or five main departments which, so to speak, impinge upon the sphere of the actuary. Such a man ought, in fact, to be competent to fill almost any administrative position calling for financial or statistical knowledge.

From the point of view which we are considering, it is a good thing for a man to have interests outside his business or profession. It is also a good thing, although not necessarily calculated to broaden his outlook, for a man to keep up his games and outdoor pursuits as long as possible. A healthy body is a great asset if a man be called upon to work hard and carry heavy responsibilities; it is also a great assistance towards a clear mind.

May I venture, in rather crude language, to give my own prescription for a full and not unsatisfactory life? 'Work hard, play hard, and do something additional outside your ordinary work, preferably something for others, for which you are not paid.' The third ingredient is important, but I do not think it matters very much what form it takes.

So many of our students are engaged at present on more urgent matters that these remarks are not particularly apposite, but they may perhaps be regarded as a contribution to the solution of the post-War problem.

I ought not, however, to pass from this point without mentioning

the Students' Society, which, I think, plays, in normal times, a very important part in the professional lives of our younger men and which undoubtedly has a broadening influence.

I hope no one will think that I regard the charge of narrowness, which is occasionally made against our profession, as having any real foundation. That is not the case, but I should like to make sure that the onus of proof rests on those who make the charge. One would like the attitude of all those with whom we come into professional contact to be that, *because* we are actuaries, we can be relied upon to take a broad view and that our estimates, although rightly conservative, are always made after taking a broad and common-sense view of the circumstances with which we have been dealing.

Actuarial work may be conveniently classified under two headings. There is, first, the task of deciding what rates of mortality, sickness, retirement, etc. (singly or taken in conjunction), are likely to be experienced in connexion with the particular problem in hand, and at what rate of interest it will be possible to invest such surplus monies as emerge. Secondly, these rates having been chosen, the necessary formulae, which will transform the statistical rates and ratios into monetary values, have to be decided upon or devised.

If suitable existing tables be not available, new tables may have to be constructed and, in either event, past experience has to be examined, as part of the process of determining what rates are to be assumed for the future.

As there can be no finality in regard to any of the rates used, it becomes necessary to examine the results periodically and to have valuations made at regular intervals, corrections being made, when necessary, by introducing appropriate changes in the valuation bases as regards interest, mortality and the like.

That, I am afraid, is somewhat trite; but the conditions imposed by the War have produced variations from the normal, sometimes of a material character, in most of the experience rates (including interest) with which we have to deal, and, with your permission, I should like to examine and comment upon some of those variations.

As a preliminary, it is necessary to consider to what extent the departures from what has been normal in the recent past are likely

to be temporary or, relatively, permanent. Take, for example, the case of unemployment, which, under war conditions, has almost disappeared. However optimistic a view one may be tempted to take of post-War conditions, it would obviously be unwise to assume, when dealing with an unemployment benefit, that anything resembling existing conditions is likely to become a permanent feature of the post-War period. Again, as a result of labour shortage, many slightly injured people, in receipt of Workmen's Compensation, are earning higher wages than in normal times and, as a result, the compensation for injuries which they were receiving has been reduced, sometimes to vanishing point; but it would be very unwise, in making an estimate of liability for outstanding claims, to allow anything more than a nominal reduction on an earlier estimate, on account of this almost certainly temporary condition. I am tempted to go further and to say that recent experience may justify an increase in earlier estimates—although the amount of weekly compensation has decreased—by throwing light on the extent to which this particular factor is dependent upon general labour conditions. Where pension schemes are concerned, war conditions must, in many cases, have had the effect of postponing the pension age, and, here also, we have a condition which may be regarded as purely temporary.

There are other instances which could be quoted, but I propose to devote my remarks mainly to the two very important factors of mortality and interest, as to which it is not so easy to decide to what extent present conditions may be regarded as likely to be temporary or, relatively, permanent. As a result, my further remarks will be mainly applicable to Life Assurance.

First, as regards mortality. I am glad that the Council decided to invite the English Life Offices to furnish the Institute with comprehensive information in regard to war deaths amongst their policyholders, and I am still more pleased that all the Offices approached have agreed to contribute to the experience which it is proposed to collect. I am sorry, however, as the Council of the Faculty was not willing to approach the Scottish Offices in the same way, that it was not possible to conduct this enquiry through the medium of the Continuous Mortality Investigation Committee and that a special Institute Committee had to be set up for the purpose. I am the more sorry because I hope that, in the not very distant

future, the Continuous Mortality Investigation Committee will extend the scope of its operations and, without prejudice to anything else which it may decide to do, I hope that it will be able to furnish us ultimately with a reasonably comprehensive analysis of causes of death. In my opinion, segregation and investigation of the losses resulting from war deaths is only a special phase of this larger and very interesting problem.

There is an immense amount of unassimilated information buried in the records of our Life Offices, which, if it could be collected and classified, would be of great use to the Offices themselves, to the medical profession and to the community. Under modern conditions and with the use of modern tabulating machinery such collection and classification does not present any insuperable difficulty, and I think that the time is ripe for action, somewhat on the lines of the medico-actuarial investigations which have been made in the United States. I recognize that it may be necessary to collect information for many years before valuable results can be expected to emerge, and, of course, any activities of the kind I am suggesting would be dependent upon the willingness of the Offices to furnish such additional statistics as might be required, but I feel sure that the additional information would be forthcoming.

As a result of the War, the Life Offices have made many payments which would not otherwise have been made, representing in the aggregate several millions of pounds. Whilst that is the case, and although precise figures are not yet available, it is a fair inference, from sentences which have appeared in annual reports and in the speeches of Chairmen, that, to some extent, the mortality losses due to the War have been offset by the mortality from other causes being lighter than usual. There is still less information available in regard to the effect of war conditions on annuitants, because Offices do not usually obtain information as to the cause of death when an annuitant dies, but the returns of the Offices contributing to the Continuous Mortality Investigation indicate that mortality amongst annuitants in 1940 was about 10% in excess of that experienced in 1938 and 1939. 10% is a substantial increase, but variations as large as this have occurred in peace time between one year and the next. The mortality experience of annuitants in 1941 is not yet available.

Reverting to the mortality of lives assured, I can well remember,

during the War of 1914-18, that considerable anxiety was expressed as to what was likely to be the effect, upon the health of the survivors, of the hardships which the Army and other fighting forces were being called upon to endure during the War period. Actually, those fears proved to be groundless, and I do not think, apart from the cases of men who were suffering from some definite injury or disability, that anyone has been able to trace any increase, in the subsequent rates of mortality, which was due to the after-effects of war hardships.

I had the opportunity of having about 300 men medically examined as they were discharged from the Army, and at the point when they again became engaged in civilian life. Apart from a few who were suffering from definite injuries, I have never, either before or since, seen such a series of good medical reports. I hope and believe that there will be similar compensating factors at the end of this War, and that a general improvement in the health of the men who have been in the Forces may prove to be some compensation for the losses which have resulted and will result from definite war injuries. The points, however, which I want to make are that nothing has happened, so far, and nothing seems likely to happen, which necessitates or will necessitate a change in the standard table of mortality at present used for the calculation of premiums and for the purpose of making our periodical valuations, and that, so far as mortality is concerned, we are almost certainly justified in regarding variations due to the War as being of a temporary character. Any additional cost due to War deaths has to be met, out of what would otherwise be current surplus, but no case has arisen, so far, for using a heavier table of mortality either for valuations or for calculating premiums.

It is a dangerous thing to be dogmatic because, although I am optimistic as to the probable duration of the War, the end is not in sight, and there may very well be heavy losses before a conclusion is reached. Moreover, one must not rule out the possibility of an epidemic, which, as was shown by the influenza epidemic which followed the last war, may cause deaths far in excess of the number due to the War itself. Nevertheless, I remain of opinion that mortality variations due to the War are likely to be of a temporary character and that, whatever causes may lead to the adoption at some time in the future of a new standard table of mortality for

Life Assurance purposes, a new table is not likely to be adopted as a result of our war-time mortality.

That does not exclude the possibility that, as a result of two major wars within thirty years, it may become the practice to include a small additional loading to cover war risk when calculating premiums—to be earmarked and placed to reserve.

Offices, generally, have included, in policies issued since the outbreak of War, a clause limiting liability, usually to the amount of the premiums paid, should death occur as the result of enemy action. The expression generally used is 'death due directly or indirectly to war (whether war has been declared or not)'. A few Offices, however, give limited war cover as a matter of ordinary routine (sometimes, but not always, restricted to With Profits policies), usually whilst the life assured is a civilian and remains within the geographical limits of Great Britain. In suitable cases, on payment of a suitable premium, the war clause is waived, either unconditionally or whilst the life assured remains a civilian and continues to reside in Great Britain. Such cases, however, are not very numerous and comparatively little war cover, apart from the 'limited' cover given by certain Offices just referred to, has been given under life policies issued since August 1939. On the other hand, in nearly all cases, war claims, arising under life policies issued before September 1939, have been and are being paid in full—regardless of whether the policy does or does not contain a clause which, if applied, would relieve the Office from liability.*

It must seem anomalous to the uninitiated that Offices should be so liberal, where policies issued before the War are concerned, and so careful regarding more recently issued policies. The explanation is, of course, contained in the word 'selection'. So far as 'war cover' is concerned, there is little or no selection against the Offices in peace time, but if full 'war cover' were given, without charge or for a nominal charge, under policies issued in war time, the selection against the Offices would be enormous.

That is all very obvious, but it leads to another point which I want to make: that, so far, nothing has transpired to indicate that the practice of issuing unconditional policies in peace time is other

* To avoid possible misunderstanding, it should perhaps be added that clauses inserted in individual policies, in anticipation of a specific risk such as war or aviation being incurred, are usually enforced.

than satisfactory. That is not said by way of even indirect criticism of those actuaries who have preferred, in peace time, to exclude 'war cover' from the policies for which their Offices are responsible.

I think that, in the post-War period, it will be quite reasonable to argue that, having regard to what happened in 1914 and again in 1939, it is unlikely that a war clause, imposed in time of peace, will be put into operation should war again occur; nevertheless, it may be wiser to have such a clause, as a safeguard, to be put into operation if circumstances should make it necessary. But I think it will also be reasonable to argue in favour of unconditional policies, and, if I may say so, I think it is not very important which view be taken. It is important, however, that there should be no unfair criticism of either party by the party holding the alternative view, and that each party should be careful, particularly in a time of emergency, not to take any action calculated to be harmful to the other.

The information which is being collected, in regard to the actual cost of claims due to the War, may throw some light on the point as to which of two attitudes, neither unreasonable, is to be preferred.

The position as regards interest and income tax is, unhappily, more difficult and much more serious.

I would not for a moment suggest that the finances of the country are not being managed better than they were during 1914-18, but, as a result, the position of Life Insurance Offices and other financial Institutions is much more difficult to-day than it was in (say) 1917.

May I make a few comparisons?

Income tax in the year ending 5 April 1914 was at the rate of 1s. 2d. in the £; it was at the rates of 1s. 3d. and 2s. 6d. during the next year, at the rates of 2s. 6d. and 3s. 6d. in the following year, 5s. for the years ending 5 April 1917 and 1918 and 6s. for the year ending 5 April 1919, at which figure it remained for three more years. Financially speaking, the present War started in 1938 with 'Munich', and income tax, for the year 6 April 1939 to 5 April 1940, started with what was then, rightly enough, regarded as the high rate of 5s. 6d. This was increased after the outbreak of war to 7s. which increased rate was made retrospective to the beginning of the financial year. The rate for the year ending 5 April 1941 was 8s. 6d. and for the years ending 5 April 1942 and 1943 it was and is

10s., but the maximum rate payable in respect of interest on Life Assurance Funds has been fixed at 7s. 6d.

If we compare 1914-15 with 1939-40, 1915-16 with 1940-41 and so on (an interval of twenty-five years in each case) income tax, as applied to Life Offices during the first financial year coming within the war period, was about 5s. higher in this War than in the 1914-18 War. In the second financial year the difference was about 4s. 6d., whilst both in the third financial year and in the fourth, upon which we have recently entered, the difference is 2s. 6d. Should the present maximum of 7s. 6d. remain unaltered, the difference next year will be 7s. 6d. less 6s., i.e. 1s. 6d., and it must be recorded with satisfaction that the limitation to 7s. 6d. has mitigated what otherwise would have been an exceedingly serious situation for Life Offices. It can be argued whether the rebate of income tax in respect of expenses of management should properly be regarded as increasing the net rate of interest earned, or, alternatively, as reducing the expenses of management. Whichever view be correct, the position remains that, if the maximum of 7s. 6d. be maintained, the excess over the 1914-18 maximum will be 1s. 6d., and that the application of this additional rate to the gross interest will be offset to an appreciable extent by the application of the same additional rate to the expenses of management. Expenses of management, at present, are less than usual in most cases, because new business is being transacted only on a reduced scale, and the rebate of income tax is correspondingly reduced until such time as business again becomes active.

On the other hand, whereas Life Offices during and after the 1914-18 War paid tax at the then prevailing maximum rate of 6s. for four years, it seems probable that the maximum rate of 7s. 6d. will be paid for a somewhat longer period on this occasion, if only because the standard rate of 10s. will have to be reduced by more than 2s. 6d. before an Institution, subject to a maximum rate of 7s. 6d., will benefit from the reduction.

The whole question of the weight of income tax, where financial Institutions are concerned, turns on the basis of assessment. Those businesses, or sections of businesses, which are taxed on profits are in a better position in some respects than those which are taxed on interest because, however high the rate of taxation, they cannot be taxed unless they have made a profit. On the other hand, a business

like Life Insurance, which depends on the accumulation of surplus premiums at compound interest, could be rendered insolvent if taxed on its interest at too high a rate. That has always been the case, but what was academic has become a matter of great practical importance during the last two or three years, and it is satisfactory that the situation has been recognized by Parliament by the fixing of a maximum rate of income tax where Life Insurance is concerned. What Parliament has done, Parliament can undo; but departure from a precedent of this description is unlikely.

To sum up—income tax is a very serious factor in the present difficult situation, and it would have been a preponderating factor but for the standard rate having been made subject to a maximum of 7s. 6d. It remains a serious factor, but it probably has not so serious an effect as the low rate of interest now obtainable on British Government Loans, compared with the higher rates obtainable a few years ago on the much wider range of investments then available for 'new money'.

The wind, then, has been tempered to the shorn lamb, so far as income tax is concerned, but, unfortunately, the victim has been subjected to further shearings.

We have no right to complain. The one thing that matters is that we and our Allies win the War, and the policyholders and members of our financial institutions, if they could be consulted, would be emphatic in stating that the funds of those institutions must be made available, to the fullest extent possible, for use in the war effort. As money accumulates, therefore, it has been invested in Government Loans carrying interest at $2\frac{1}{2}$ or 3 %, and each such operation has been a further shearing away of the margin of interest—over and above the solvency minimum—upon which our institutions live.

The solvency minimum, fortunately, is not a fixed rate, and it is falling, too, because rates of premium have been increased and, as time goes on, the older business at lower premium rates is being gradually replaced by more recent business at higher premium rates. That movement, however, is only in its infancy.

The low rate of interest payable on Government loans, the market control which accompanies it, and the restriction of institutional financial operations very largely to new Government issues, have resulted in high prices for Stock Exchange securities

generally. That is satisfactory for the time being. As a result, most financial institutions have a substantial margin, on the right side, between market values and book values. When, however, as must ultimately be the case, control is relaxed and the area of new investment is enlarged, a substantial fall in values is to be anticipated, which may very well not only absorb the margins but necessitate, in addition, the writing down of values on a substantial scale.

We are not only faced, therefore, with very low rates of interest on new investments, and, as a result, a fall in the average rate earned on our funds, but we are also faced with the prospect of serious depreciation of capital values as the price later on of an improvement in the rate of interest on new investments.

A comparison with the position in 1914-18 is interesting and may throw some light on our problems, which are, I think, much more difficult to-day than they were then.

War finance started in November 1914 with $3\frac{1}{2}\%$ War Loan, repayable 1925-8, issued at 95. In June 1915 $4\frac{1}{2}\%$ War Loan, repayable 1925-45, was issued at par, and in January 1917 5% War Loan, repayable 1929-47, was issued at 95. There was a corresponding 4% (tax compounded) Loan, 1929-47, issued at 100. The $3\frac{1}{2}\%$ Loan was a comparatively small issue, and nearly 90% of the $4\frac{1}{2}\%$ Loan was converted into the 5% Loan, which was the biggest issue of the War period. Considerable issues were made of Exchequer Bonds—for periods of five years or less—issued at par and usually carrying interest at 5% , although there was one much-criticized issue at 6% towards the end of 1916. In the last period of the War large issues were made of National War Bonds for periods of five, seven and ten years. These were issued at par, carried interest at 5% and, in the case of the ten-year bonds, were redeemable at 105. With each of the issues of 5% National War Bonds an offer of 4% (tax compounded) Bonds was made—the term being ten years, the price of issue being par, when tax at the time of issue was 5s., and $101\frac{1}{2}$ when tax at the time of issue was 6s. Redemption of all these tax-compounded issues was at par. The issue of National War Bonds was continued until May 1919, and the series of War issues terminated, in June and July 1919, with the issue of 4% Funding Loan at 80, and 4% Victory Bonds at 85. It will be understood that this is not an exhaustive list. There were also Treasury Bills, War Savings Certificates, War Expenditure

Certificates and a whole series of issues made in the United States, but the list is long enough—perhaps longer than is necessary—to form a basis for comparison with the financial issues of the present War.

It would, I think, be a reasonable statement to say that the War of 1914-18 was financed on a $5\frac{3}{8}\%$ basis. War Loan at 95 yielded £5. 11s. 6d. % or £5. 6s. 9d. % according to whether it was assumed to be redeemable in 1929 or 1947; ten-year National War Bonds yielded £5. 7s. 6d. %, and the 4 % Bonds (tax compounded), issued when tax was 5s., yielded, at that point, £5. 6s. 8d. %. Five-year War Savings Certificates issued at 15s. 6d. yielded $5\frac{1}{4}\%$, free of income tax, but the amount which could be held by one person was restricted to 500 certificates.

The issues of the present War start with 3 % War Loan 1955-9, followed by $2\frac{1}{2}\%$ National War Bonds 1945-7, and by 3 % Savings Bonds 1955-65. There have been two further series of $2\frac{1}{2}\%$ National War Bonds, maturing in 1946-8 and 1949-51 respectively, and one further series of 3 % Savings Bonds redeemable 1960-70. There has been also a comparatively small 3 % Funding Loan issue, redeemable 1959-69. All these issues have been made at par and they are all redeemable at par.

In addition, there are two restricted issues, National Savings Certificates issued at 15s. and redeemable in ten years' time at 20s. 6d., and 3 % Defence Bonds, the first series of which provides for redemption at the end of seven years or earlier, at the option of the holder, on giving six months' notice.* No individual may hold more than 500 National Savings Certificates, nor more than £1000 in Defence Bonds. There has been nothing to correspond with the 'tax-compounded' issues of 1914-18.

It is, I think, reasonable to say that this War is being financed on a basis of approximately $2\frac{3}{4}\%$, and that this figure is roughly comparable with $5\frac{3}{8}\%$ for the War of 1914-18.

But to get an effective comparison for Life Insurance purposes, allowance for income tax must be made. Taking the respective maxima of 6s. and 7s. 6d., the $5\frac{3}{8}\%$ and $2\frac{3}{4}\%$ are reduced to £3. 15s. 3d. % and £1. 14s. $4\frac{1}{2}$ d. % respectively. Probably, however, a better comparison will result, if some allowance be made for

* The second series of these Bonds is similar to the first except that the maximum term is ten instead of seven years. Both series mature at 101.

the rebate in respect of expenses of management. If it be assumed that this reduces the effective maximum rates of income tax to 4s. and 5s. respectively, the net rates of interest corresponding to gross rates of $5\frac{3}{8}$ and $2\frac{3}{4}\%$ become £4. 6s. 0d. % and £2. 1s. 3d. % respectively.

The period 1914-18 started with heavy depreciation; but depreciation, due to an alteration in value resulting from a higher current rate of interest and not due to a deterioration in the security itself, is not necessarily a very serious matter, particularly in those cases where the security is redeemable at a fixed price. It is very satisfactory if such depreciation can be written off forthwith, but it is not unreasonable to deal with it over a period of years, and, during 1914-18 and the years immediately following, the net rate of interest earned on Life Insurance Funds was sufficiently high to be of material assistance in dealing with depreciation. Indeed, towards the end of the War period, it became obvious that a time of great prosperity was approaching, so far as Life Insurance was concerned. Partly as a result of writing down and partly as a result of investing at high rates, the average rate of interest earned on the Fund had in most cases reached a highly satisfactory figure and, as money became cheaper, an appreciation of market values over the reduced book values was in sight.

The current War period has not been marked by any serious fall in the value of good and high-class securities but, as compared with 1914-18, we have had a very low rate of interest on new investments, which has certainly furnished no margin towards meeting the depreciation in the post-War period, which, I think, is very probable.

We have, then, in addition to the possibility of heavy claims, the fall which has already taken place, and which may continue, in the average rate of interest earned on Life Insurance Funds, and the probability that, later on, an improvement in interest will be accompanied by a fall in the values of the securities in which those Funds are invested. It seems clear, therefore, that, generally speaking, surpluses which emerge cannot at present be regarded as available for distribution, and that the allocation of substantial sums to strengthen reserves must be regarded as constituting a first charge thereon.

Broadly speaking, to the extent that a surplus is not distributed,

it can make little or no difference whether the sum available is used to establish reserves on a more stringent basis, or is used to set up an additional reserve, or to write down the value of securities, or to increase the amount 'carried forward'. The more orthodox way is to reduce the valuation rate of interest, but, having regard to the views I have expressed, I am inclined to think that the more logical course would be to write down the book values of securities to figures still further below the market values than those at which they stand at present—thereby producing an increase in the rate of interest earned on the written-down Fund and providing a further 'cushion' against the depreciation in market values which, I think, is to be expected after the War.

Probably (and probably quite rightly) the orthodox view will prevail. Nevertheless, I venture to suggest that there is no urgency yet to adopt, for valuation purposes, rates of interest below $2\frac{1}{2}\%$, and that, when a $2\frac{1}{2}\%$ basis has been established, any further strengthening of reserves may very well, for the time being, take one of the other forms I have mentioned.

The outlook is not entirely gloomy.

Large Government borrowings will cease not long after the end of the War and, as a result, Offices will become free to invest their surplus incomes on more advantageous terms than is at present possible, so long as new investments are virtually restricted to Government Loans. The post-War period will call, moreover, for capital expenditure on an enormous scale, and the large financial Institutions of the country will be expected to play their part in providing the funds. Whilst I do not expect that very high rates of interest will be paid, or that there will be complete freedom from Government control, I am confident that commercial and material reconstruction will be financed at rates of interest appreciably higher than we have been receiving recently. In addition, without expecting anything drastic in the near future, it is reasonable to expect that, sooner or later, there will be a reduction in the rate of income tax. These factors are cumulative and justify a reasonable hope, amounting to expectation, that, quite early in the post-War period, a small but steady improvement in the average rate of interest earned on the Funds of our Life Offices will be experienced—although, I fear, accompanied by a measure of depreciation in the market values of the securities in which the Funds are invested.

This address is longer and more discursive than I had intended it to be. I have tried, however, to touch on current matters, which I hope you have found to be of interest, and to produce a record which, however imperfect, may be of some use in the future to anyone who may wish to know something of our position after nearly two years and three-quarters of War.

It is the crown of a man's career when his colleagues choose him to be, for a brief period, the titular head of his profession, and it is impossible for me to express adequately my pride and gratitude that I should have been so chosen. I wish that, in the high office to which you called me now nearly two years ago, I could have been more successful in my efforts 'by way of amends to be a help and ornament thereunto'.