

Prudential Assurance Company.

DIRECTORS' REPORT

FOR THE YEAR ENDING DECEMBER 31st, 1866.

The Directors have now the pleasure to submit the Eighteenth Annual Report of the Company's operations, together with the Valuation of the Assets and Liabilities for the quinquennial period ending 31st December, 1866.

The new business of the year amounts to **£82,264 16s. 5d.**, which is the largest yet transacted by any purely Life Assurance Company. The claims amount to **£66,444 9s. 6d.**, increasing the sum paid to representatives of deceased members to **£356,249 8s. Od.**

The Annual Premium Income of the Company now amounts to **£154,162 16s. 11d.**

The Directors, although of opinion that the staff of the office was quite competent to perform the ordinary valuation, yet, as the present period formed a special and important epoch in the history of the Company, resolved to consult two thoroughly independent actuaries upon whose judgment the utmost reliance could be placed. They accordingly selected Mr. A. H. Bailey, the eminent actuary of the London Assurance Corporation and one of the Vice-Presidents of the Institute of Actuaries, and Mr. S. L. Laundry, F.I.A.

The whole of the computations were made by the latter gentleman, and all the papers subsequently submitted to Mr. Bailey. Their reports are annexed.

The Directors declare a bonus to all Policy-holders entitled to participate in accordance with the recommendation of Mr. Bailey, averaging 37 per cent. upon the premiums paid since the last valuation, and immediate steps will be taken to allocate the same to the various Policies. Each Policy-holder will be informed as early as possible of the amount allotted to him.

The Shareholders will also be informed in due course of the amount allotted to them.

The Directors would draw attention to the fact that the valuation has been conducted upon the Carlisle Three per Cent. Table of Mortality, and the entire loading of the Premiums set aside for future bonuses and expenses.

It is believed that few Companies could show such satisfactory results after so severe a test as that adopted; and the Directors cannot but congratulate all their connections upon the high position which the Company has attained, and believe, with the cordial co-operation and assistance of all its constituents, together with the active support of those who will be attracted to it by the prudence of its dealings and the solidity of its foundation, that at the next quinquennial division of profits the Company will be enabled to declare a bonus equal to, if not exceeding, that of any other kindred Institution.

An Appendix accompanies this Report, containing information of a most valuable and interesting character respecting the Industrial Branch of the Company. It is believed that the statistical facts published will form a most useful chapter in the history of Life Assurance.

Messrs. Pugh and Sers retire from the direction on the present occasion, and, being eligible, offer themselves for re-election.

The Auditors also retire: and, being eligible, offer themselves for re-election.

The usual interest on Shares will be payable on and after the 29th April, 1867.

JAMES GILMAN,

Chairman.

TO THE DIRECTORS OF THE PRUDENTIAL ASSURANCE COMPANY.

GENTLEMEN,

Mr. Harben having placed in my hands the whole of the papers relating to Mr. Laundy's valuation of the liabilities of the General business of your Company, to the 31st December, 1866, I have made a careful examination of the numerous schedules and calculations.

The work, which, on account of the number and variety of the risks undertaken, is both intricate and laborious, has been performed throughout with Mr. Laundy's well-known skill and ability as a scientific computer. I have minutely investigated the processes employed; checked by an independent method the valuation of the whole term Policies at uniform premiums, which compose the great bulk of the risks; and am satisfied that the computations are accurate, and that the results may be relied on without hesitation.

The valuation has been made on the following principles, viz. :—

- (1.) That the rate of mortality will correspond with that of the Carlisle Table.
- (2.) That the rate of interest realised will be 3 per cent. per annum.
- (3.) That the *net* premiums only, *i. e.*, the premiums which computed by preceding data would be just sufficient to provide the sum assured, should be taken into account—the difference between the premiums actually payable and the net premiums, rather more than 17½ per cent. of the former, being reserved as an annual fund for future expenses, contingencies, and profits.

It may be objected that an unnecessarily low rate of interest has been assumed; but, at all events, there can be no doubt of the entire safety of the principles adopted. The effect is to subject the liabilities of the Company to a very stringent test, which not many young offices could bear.

It appears that there were in force, at the end of last year, in the General Department, 6,827 Policies for Assurances of £1,118,171, including bonus additions, upon which the Annual Premiums amounted to £35,589 6s. 3d. Of these Policies, 5,113 for £875,286 are entitled to participate in profits, the remaining 1,714 for £242,885 being non-participating Policies. There is a further liability in respect of 25 Annuities, immediate and contingent, of £747 15s. 9d., and a portion of the risks, to the extent of £30,376, has been re-assured with other offices at an annual outlay of £899 15s. 5d. The result of the valuation of these liabilities, according to the principles just explained, is as follows, viz. :—

Present value of Sums Assured and Annuities	£542,083
Present value of future <i>Net</i> Premiums	445,144

Difference, being the amount required to be reserved £96,889

And as, according to the balance-sheet furnished, after providing for all the other outstanding liabilities, including what, according to your judgment, is an adequate reserve for the Industrial business—the fund available for the General business is £119,735 18s. 5d., the amount of surplus divisible is £22,846 18s. 5d. One-fifth of this sum, £4,569 7s. 8d., belongs to the Shareholders; the remaining four-fifths, £18,277 10s. 9d., is to be appropriated to the Assured, and will yield reversionary additions to the sums assured, varying according to the ages of the lives, but averaging rather more than 37 per cent. on the premiums paid since the last division of profits.

The following are the examples of the additions which will be made to Policies of £500 on which Five Annual Premiums have been paid:—

Age at Entry.	Sum Assured.			Annual Premium.			Bonus added.			Per Cent. on Premiums paid since last Division.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
25	500	0	0	10	16	3	24	10	0	45	3	0
35	500	0	0	13	14	7	26	10	0	38	6	0
45	500	0	0	18	0	10	29	5	0	32	4	0
55	500	0	0	26	18	4	36	18	0	27	4	0

These results are, in my judgment, very satisfactory, and a legitimate subject of congratulation to all parties concerned.

I am, Gentlemen,

Your most obedient Servant,

London Assurance Corporation,
7, Royal Exchange,
20th April, 1867.

ARTHUR H. BAILEY,
Actuary.

TO THE DIRECTORS OF THE PRUDENTIAL ASSURANCE COMPANY.

GENTLEMEN,

Pursuant to instructions received from your Secretary, Mr. Harben, I have made a valuation of the Company's "General" Policies existing on the 31st December, 1866. The basis of the calculations, adopted by your direction, is the rate of mortality as shown by the Carlisle Table, and the rate of interest, three per cent., that being the foundation of the premiums charged by the Company. The results of the valuation are shown in the accompanying schedules, pp. 1 to 52.

From the general summary at p. 52, it appears:—

That the number of Policies in force at the above mentioned date was 6,852, of which 5,113 were of the Participating Class, 1,714 of the Non-Participating Class: the remaining 25 being in respect of Annuities, immediate and contingent, for £745 15s. 9d. per annum.

That the sums assured by Participating Policies were £875,286 9s. 9d., including £10,839 10s. 11d., of Reversionary Bonus already allotted to them.

That the sums assured by Non-Participating Policies were £242,885 2s. 10d.

That the Annual Premiums are as under:

On Participating Policies	£26,982 5 3
„ Non-Participating do.	8,598 1 0

£35,580 6 3

Less Premiums on 55 Policies of Re-Assurance of Surplus Risks on £30,376 19s. 8d.	899 15 5
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Being a total net Premium Income of

£34,680 10 10

That the present value of the sums assured by Participating Policies, including Bonus, is	£424,855 8 0
Non-Participating Policies	132,246 18 0

£557,102 6 0

Less value of Sums Re-assured	15,069 4 0
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Net

£542,033 2 0

That the present value of the Yearly Premiums payable on Participating Policies is	£436,366 0 0
Non-Participating	120,328 8 0

£556,694 8 0

Less value of Premiums payable on Re-assurances	14,016 14 0
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£542,677 14 0

But, in estimating the value of the Company's liabilities, it is to be understood that the Full Premiums payable on its Policies cannot be taken into account, as by so doing the entire value of the margin required to cover future expenses, and of the fund out of which future Bonuses must accrue, would at once be anticipated. For these Office Premiums I have therefore substituted such a rate as at the age at entry of each of the Assured would exactly produce, according to the Carlisle Mortality and Three per Cent. interest, the sums secured by the respective Policies, from which I estimate the value of such last-mentioned Premiums (exclusive of margin) to be as follows:—

On Participating Policies	£352,209 16 0
„ Non-Participating	105,093 18 0

£457,303 4 0

Less Re-assurance Premiums	12,159 4 0
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£445,144 0 0

So that the reserve now made for future expenses and Bonuses amounts to £96,889 2s. Od., or nearly 18 per cent. of all the future Premiums payable under existing Policies.

Incorporating the valuations thus arrived at into the Balance Sheet furnished to me, and which includes a reserve of £25,000 for liability under the "Industrial" Branch of your Company's business, as recommended by your Secretary, I find a sum of £22,846 18s. 5d. available for distribution among the Share and Policy-holders, of which sum £4,569 7s. 8d. is divisible among the former, and £18,277 10s. 9d. among the latter.

Assuming the adoption of these figures, the sum thus set apart for the Policy-holders will be 19.15 per cent. of the total amount of Premiums paid since the last division of profits, which is equal, in present value, to an average reversionary addition of between 37 and 38 per cent. of such Premiums, but varying in individual cases, according to the ages of the lives assured.

In conclusion, allow me to remark, that the foregoing extremely satisfactory statements, resulting from so stringent a test as the Three Per Cent. Carlisle Rate, augur well for the future, and for the prudence of your Board. If they had adopted another safe, though more favourable basis of calculation, larger results would have been shown; but they have preferred to act on the strictest basis, which cannot fail to be duly estimated by their Policy-holders and the public at large.

I have the honour to be, Gentlemen,
Your obedient Servant,
SAML. L. LAUNDRY.

18th April, 1867.

PRUDENTIAL ASSURANCE COMPANY.

DR. BALANCE SHEET, 31st DECEMBER, 1866. CR.

	£.	s.	d.		£.	s.	d.
To present value of Sums Assured as per Actuary's Valuation	542,033	0	0	By present value of Net Premiums receivable (less loading)....	445,144	0	0
„ Reserve Fund for Industrial Business	25,000	0	0	„ Investments in Colonial Government Securities, Mortgages, Purchases of Reversions, Life Interests, and other Assets	161,332	2	1
„ Old Share Account	220	0	0	„ House, 62, Ludgate Hill	6,726	17	0
„ Loan Guarantee Fund	1,845	13	0	„ Cheapside House Account	277	7	0
„ Share Capital	5,827	18	0	„ Loans on Policies	726	19	6
„ Deposit Account	32,665	4	8	„ Agents' Balance, General Branch	4,397	17	10
„ Agents' Credit Balances	300	7	5	„ Agents' Balances Industrial Branch	6,777	5	11
„ Claims admitted but not due	2,375	6	5	„ Cash Balances			
„ Balance	22,846	18	5	At Bankers and in hand	£2,231	17	10
				Deposit, City Bank	5,000	0	0
				Do. National Provincial Bank	500	0	0
					-7,731	17	10
					£633,114	7	11

We have examined the foregoing Account, and find it to be correct, and hereby confirm the same,

R. ATKINSON, }
JAMES ALLANSON, } AUDITORS.

24th April, 1867.