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## Remarks on the Position and Prospects of the Actuarial Profession, and of the Business of Life Assurance

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*Remarks on the Position and Prospects  
Of the Actuarial Profession,*

AND OF

*The Business of Life Assurance,*

BEING

THE INAUGURAL ADDRESS

FOR SESSION 1886-87

BY

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HONORARY PRESIDENT OF THE SOCIETY

*Remarks on the Position and Prospects of the  
Actuarial Profession, and of the Business  
of Life Assurance.*

IN welcoming you once again as your Honorary President, at the beginning of another Session, I would fain that it were allowed me merely to refer you back to one or other of the Opening Addresses of past years—the classics of your Society—which tell, many of them in terms much more eloquent than I could hope to do, what lines the Actuary had better follow in setting out on his professional career, and what goal he should steer for once he is fairly started on it.

But, as the old order changes yielding place to new, each year brings round with it some altered phase of thought, turns up to the surface some fresh and suggestive idea, and in so doing compels one forcibly to remember—notwithstanding there may be nothing altogether new under the sun—that the world still moves on ever more rapidly with kaleidoscopic effect, bringing old developments within the field of view in some fresh and altered light. Wherefore I am in duty bound in my turn, if I can, within our own sphere of observation, to draw notice to the new forces that are there at work, and to indicate the direction to which our attention should be turned.

Nor indeed is the life of the Actuary, whether in its theoretical or its practical phase, an idle one while all else makes progress.

The theorist is constantly accumulating new statistics under new conditions, while new methods of arranging them, and new refinements of adjustment, are daily being suggested and applied. But such knowledge and results are, after all, a means and not an end, and the theoretical Actuary, unless himself also thoroughly practical, must be as a mere handmaid to the busy

man of the market-place, working out his living problems on lines dictated by the voice of the public, and suited to their necessities.

Neither, on the other hand, in this age of rapid movement, is there any lack of life or progress on the part of the practical Actuary ; but, on the contrary, the theorist and the man of action, working on the common ground of STATISTICS, have of late drawn closer together, and move forward in harmony.

It is, in fact, most difficult nowadays for any man of thought to play the recluse and shut himself off from outside influence ; while, again, the man of action must perforce acquire at least a superficial acquaintance with that theory or science, whatever it be, which his business has for its foundation.

I would ask you therefore to-night to consider one or two of those questions which are more or less common to either side of the actuary's complete life, and to note what progress is being made, what new conditions have lately arisen.

But first of the Actuary himself. What position does he occupy as compared with some years ago ? Is his calling established on a firmer basis, has he conquered new territory for himself, enlarged the sphere within which his influence extends, made for himself a wider career of usefulness ? Sure signs of vitality and progress these—and I think my queries may be answered mainly in the affirmative.

Confining the inquiry to our own body in Scotland, we have of late years got for ourselves a Royal Charter of Incorporation, which stamps us as members of a recognised and united profession, our numbers have increased, and I think I may say our influence also. Our members, too, have spread east and west, to the new worlds beyond the seas ; and but a few weeks since I was asked by a gentleman in Canada, on behalf of himself and others, whether anything could be done to establish a Branch of our Faculty there, to the extent at least of testing candidates desirous of passing the examinations and obtaining its diploma. I promised to represent his wish to the Council of the Faculty, and, whether or not they see their way eventually to meet it, I am sure they will welcome his approach to us as an indication of the value which is attached to our *cachet* of recognition in that Greater Britain beyond the seas, which is daily being drawn closer towards us.

It is further one of the advantages of our profession that it is common to the whole world. The necessary knowledge once acquired may be practised anywhere. The problems and the methods are for the most part very similar—the details only are varied, and in a manner that interests, but does not perplex. This wideness of range should suffice to give dignity to the actuarial profession ; but, while our sphere is conterminous with civilisation itself, I do not feel that we have yet availed ourselves of all the opportunities of activity within that sphere to which we may justly lay claim.

The problems connected with Life Assurance and Industrial and Friendly Societies, and all questions depending distinctly on the duration of life, are already ours ; and that these hold a more prominent position in the public eye, I think all will admit, than they did some years ago. But there is, besides them, the great field of general Statistics, which we should make our own so far as possible, whether any problem of human life is involved or not. For such a study no great training is required, many may think, to whom “statistics” are nothing more than a dry collection of facts strung together by some dullard who is fit for no better work. But this, I need hardly say, is not the kind of recognition that this branch of research receives from those who are thoughtful, and who know its difficulties. A great deal of the best work of the world is the result of infinite toil, so much so that genius—that is the flash of thought which lightens a sympathetic world with new ideas—is often described as merely an exaggerated capacity for taking pains—the result of hard work, and no more. The right use of statistics requires, first of all, much discernment in selection of suitable elements as well as immense accuracy—one of the most scientific of qualities—in their compilation ; while, once the statistics are put together, there is no higher test of power and common-sense combined than to be able to handle them in such a way as to ensure a faithful deduction. Every day indeed we have fresh statistical results presented to us—statistics of health, statistics of wealth, statistics of population, statistics of crime, statistics of trade—and still the cry is that this country is badly off for such information as compared with others. But while the raw materials, more or less accurately compiled, are presented to us in such comparative abundance, there is nothing

more difficult, in consequence of the multitude of interacting forces, than to draw true deductions from them ; and while in some cases the results can only be approximated, in others, from those who manipulate them taking into account only certain conditions and omitting others equally essential, or even making gross mistakes of fact, the results of different investigators are so utterly divergent as to justify the common charge that figures can be found, or at least arranged, to prove any preconceived notion which it is wished to sustain.

Now it seems to me that the realm of statistics is ground almost wholly unoccupied, in which the work is performed mainly by amateurs, or at least by persons not thoroughly trained to it, and I would strongly recommend the actuarial profession to take it more directly into their keeping than they have hitherto done, and lay claim, from their trained habits of accuracy, combined with a knowledge of practical conditions, to constitute itself a statistical bureau which would be recognised as the proper body to whom—with the advice of experts in particular branches—the compilation of statistics, and the more intricate and difficult work of deducing results from them, should be intrusted in official and other inquiries.

Another line of life and activity which the actuary should make peculiarly his own, is the giving of encouragement to all schemes of providence devised for the welfare of whatever class of the community, from the highest to the lowest, accompanied by a jealous watchfulness and care that all such schemes are worked out both by honest means and on a practical and scientific basis. Much of this work is, of course, already done—and well done—by the actuarial body ; but were they to take the lead more than they do in enlightening the general public regarding the principles on which life assurance is based, in theory as well as in practice, we might be spared the unedifying and uninformed criticisms of the society journalist, such as he who has of late more especially taken upon himself the education of the uninitiated.

As for the larger of our Provident Institutions, they are all, as you are aware, brought within the scope of the Act of 1870, in the framing of which the actuarial body bore a considerable part. The working of that Act has been altogether for good, and much

credit is due to those who assisted in framing it for the manner in which, without being inquisitorial, they provided for the publication of such information as was necessary to enable the public to judge fairly of the position of any Office, and also for the check which they have placed on the formation of mushroom companies. Even now, after the lapse of sixteen years, the amendments suggested upon it by those who understand its working are comparatively unimportant, while it cannot be doubted that it has during these years done a vast amount of good, and saved much loss of money to persons who would otherwise have been beguiled into unsound concerns. Quite lately, unfortunately, the scandal of financial rottenness has shown itself once more, and in one most disgraceful example is likely to give occasion for a call for further and more direct Government interference.

Very few of those who understand the working of such a Department have, so far as I can learn, any leaning towards the plan, nor has it proved an effectual one to prevent fraud or failure in the United States of America, where it has been adopted; but, depend upon it, if any serious scandals are allowed to grow up, a public cry will be raised in favour of some more direct system of Government control, which will be a burden to the Offices, while giving to the policyholders a fancied security such as no Government supervision, however close, can possibly guarantee. It is therefore a question for the serious consideration of the Faculty, whether they should not themselves be the first to move in the direction of a revisal of the existing Act, so as to supplement all real deficiencies which may be shown to exist, rather than, through some sudden and popular initiation of the movement, be saddled with the incubus of a Government Inspector.

Friendly or Industrial Societies, too, are of course within the Actuary's province, and of these we have lately heard a good deal. Meantime I shall only say that legislation regarding them is much required, and should be more direct than that applied to ordinary Life Assurance Offices, seeing that they are often under the management of unskilled persons, who may or may not seek professional advice, and, being ignorant of its value, may or may not accept it when it is placed before them.

But outside the range of both Life Assurance and Friendly Societies, there lies a large class of persons who have no desire and very little opportunity to be provident ; and it is for these that the Rev. Canon Blackley has propounded his well-meant, but I fear impracticable, scheme of universal assurance for every member of the population. For my part, I greatly deprecate the continual appeal to Government for help in every difficulty which has become the fashion of late years with a certain class of politicians, since it has the defect of sapping the self-reliance of the people, and, beyond certain well-defined limits, is not found to be successful in producing the desired result. Canon Blackley's scheme has been shown by an English actuary to be so completely impracticable that I will not now stop to analyse and discuss it, nor do I expect that the Parliamentary Commission now sitting will find the scheme to be any more workable or desirable than we at present consider it to be, notwithstanding the recent somewhat sanguine remarks of one of its members publicly made. Indeed, for my part, I frankly confess that even if the difficulties which Mr. Sutton has pointed out should be found to be surmountable, I should prefer to see the population of the country brought to recognise the duty of provident habits by the slower method of education, rather than through a compulsion which did not commend itself to their reason and better feelings. This may be too tardy a process for the impatience of the modern reformer, whose legislation is mostly that of the forcing-house ; but a better educated age will perhaps learn to recognise that those plants are hardiest and most robust which are of slow, and steady, and spontaneous growth, and that the old principles are, after all, the best and the most successful. As is so often said, but so little remembered by some, you cannot make people virtuous or wise by Act of Parliament. But, while repudiating Mr. Blackley's scheme, it becomes all the more incumbent on the actuary—in his capacity of fellow-citizen in possession of the requisite knowledge—to do his utmost by means of persuasion and example, and encouragement given to all Societies honestly founded for the promotion of thrift, and safely managed, to secure that provident habits take a deeper hold on the less advanced classes of the community than they have at present, and so to bring about, by more legitimate



and healthy means, the same result that Canon Blackley aims at by Government compulsion.

The Actuary, amongst other things, should also make himself an authority on all the latest statistics of the births, deaths, and marriages of the population, and of the various sections of it, and should be ready to take part in collateral discussions on such subjects, for instance, as the practical working out and verification of the Malthusian theory of population and its means of subsistence, which has been called in question by Mr. Henry George in his recent writings on economical subjects.

To turn, however, to a consideration of the present and future prospects of the business of Life Assurance, which is still the great *raison d'être* of the Actuarial profession, I would make reference to some of the more important developments of late years ; and in this connection I would divide my remarks under the general heads of—

Rate of Interest and Selection of Investments ;

Rate of Mortality ;

Expenses of Management ; and lastly,

New Schemes and Systems of Working.

As regards *rate of interest and selection of investments*, I need hardly impress upon even the youngest member here, how material a factor is the rate of interest at which the funds of an Office are accumulated in the maintenance of the whole structure, a factor whose future is at the same time, I think, more uncertain than that of the rate of mortality, while its final importance is even greater than that of expenses of management. For while the rate of mortality is likely to remain pretty constant, the future of interest is much more uncertain ; and whereas, again, both these elements are necessarily involved for a long number of years in the calculations of the original premium, and the valuation of an Office's liabilities, the rate of expenditure—though the most unruly item of all—is still somewhat more within control, from the fact that it can be at any time curbed by putting an end to the outlay for new business which forms so considerable a part of the expenses of almost every Office. As regards interest, however, there is no doubt that improved means of communication, and of transfer of capital between different parts of the world have

produced a revolution in this as in other matters of trade, and that though much of the world still remains to be developed, the capital of those countries which have large accumulations waiting for investment will hereafter flow into all safe and profitable channels, much more surely and rapidly than has been the case in times past. In fact, the return for money is levelling down, and tends more and more to assimilate for good securities all over the world. The well-known axiom of the Duke of Wellington, that high interest means bad security, only held good even in his day, for securities similarly situated—that is, within a like reach of the investor's capital ; but in these times it tends more and more to be applicable not to each particular locality only, as a separate centre, but to the whole world ; and before long the rate, throughout the British dominions at all events, may be expected to maintain a nearly uniform level for all first-class investments.

But what that level is to be is the more important question for us, and my own impression—and it can only be taken for what it is worth—is that interest will tend steadily, though perhaps somewhat slowly, downwards ; for the reason that a very remarkable increase is taking place everywhere in the provident habits of the people of all classes, from the highest to the lowest, with the consequent result that larger sums are every year seeking investments of a safe kind, while on the other hand, securities of the class required do not increase in a corresponding ratio. Witness the great rush that has been made within the last few weeks to obtain a share in some new companies brought out under good auspices—much of it speculation, no doubt, but a considerable part also the *bonâ-fide* demand of solid investors. It may be that I am mistaken in my view, and that even if there are but few opportunities for British enterprise to launch out into fresh undertakings in this country, on which capital may be safely lent, there is an unlimited field still to be opened out in the Colonies. But for my own part, seeing that the Colonies also are fast heaping up savings of their own, which must in like manner be safely lodged, and that British money is every day being placed with greater freedom in Colonial securities, I am inclined to anticipate for these too a falling rate, while as regards the United Kingdom itself—what with diminished value in Scotch and English land, and

Ireland discredited at least for many years to come—I do not see where new openings of any great importance are to be found, though a certain number are sure to arise from time to time. Further, I am inclined to think that for the future the secureness of many investments in this country, of even the best class, will not be so persistent as has hitherto been the case, partly on account of the strange rashness and levity with which the fundamental rights of property have been disregarded of recent years by a certain school of politicians, and partly on account of the more rapid alternation of events which modern invention and the consequent mode of life have brought in their train. For this reason a certain further margin must be allowed for possible loss ; nor can I think that the contemplated Company for the insurance of investments will be of much real use, at all events for Life Offices. Rather would I recommend them to meet the difficulty by great care in the original selection of securities, and an ample reserve of their own to meet any possible loss.

On the whole, I would at least recommend caution to all whose duty it is to look ahead, and the application of some portion of present superabundance towards the strengthening of resources where their sufficiency is at all in doubt.

*The rate of mortality* prevalent throughout civilised countries is being to some extent influenced by the progress of the age in the same way as the rate of interest. It is being levelled down—partly by means of more rapid intercourse between one part of the world and another, whereby failing health is more readily recuperated than in former times—partly by the introduction of an improved sanitary system in unhealthy localities, and a more wholesome mode of life. There are still, however, considerable differences for different groups, whether the classification is by *place of residence*, by *occupation*, by *mode of life*, or by *race* ; and it is an ever-altering problem with Life Offices to decide how these distinctions had best be drawn, and to what extent they are to be maintained and given effect to.

Life Assurance being based on averages, it is manifest that, if the system is to be maintained at all, only broad and wide-marked distinctions can be recognised. Otherwise, every few individuals—nay, every individual, might claim to belong to a separate

class, and be rated accordingly, to the destruction of the whole system.

The simplest plan, of course, would be if all persons admitted to the books of a Society were taken on similar terms ; but such a rule would necessarily lead to too great a selection against the Office and would be unfair to individuals, and certain distinctions or standards have to be set up. Of those at present in use there are—*First*, the distinction of *age*, all persons being grouped according to the rate applicable to their age by years, or in some cases by half-years, at entering on the Company's books. *Secondly*, there is the distinction of *residence*, which is still recognised by most Offices, but is differently treated by each. *Thirdly*, there is the distinction, also generally recognised to some extent, of *occupation*. *Fourthly*, there is the distinction of *mode of life*, which has of recent years been made a ground of differentiation by certain Offices, who offer special terms to total abstainers. *Fifthly*, there is the distinction of *race*. Besides which, family history and personal condition and habits are allowed considerable weight in individual cases, according to the circumstances. All these factors, no doubt, have their bearing on the prospect of longevity, but care must be taken, while preserving broad distinctions, not to fall into the extreme of over-refinement, by endeavouring to give weight to considerations of too subtle or indefinite a kind. For this reason I am inclined to deprecate such a distinction being recognised as that between abstainers and non-abstainers, a distinction probably not of greater moment than that which may be drawn between residents in such a town as Glasgow, for instance, and in Torquay, or any of the other health resorts of our southern coasts, while the interchange between the two divisions is probably as frequent in the one example as the other. Possibly abstainers, persons living in healthy localities, persons of exceptional family history, and others, might all be placed in special classes, with some advantage to themselves and corresponding disadvantage to those left out ; but, with so much refinement, the whole fabric of Life Assurance is liable to be broken up into endless groups, many of them overlapping one another, and to the confusion of the whole. How—to take a more complicated example—are we to draw a distinction between (say) an abstaining publican, who lives in a healthy

locality with a consumptive mother, and a ruptured, but otherwise healthy clergyman, who lives in a swamp, and has a father dying of cancer? It is evident that weight cannot be given to each of these distinctions in fixing the premiums, and as a general rule no more of them should be recognised than is sufficient to guard against a material selection being exercised adverse to the Office. Take, for instance, the distinction of residence abroad. It is quite possible for an Office, at a very slight cost overhead, to cover the risk of any of the assured going abroad at a future date who, at the time of taking out their policies, have no prospect of doing so, *or*, without any very heavy extra premium, to cover all foreign residence, provided only a moderate proportion of the assured go abroad. But the moment selection against the Office comes into play, the situation is altered, and for the protection of the interests of other policyholders an extra premium must be imposed in proportion to the risk. So also with suicide. What should be desired by the managers of an Office is protection against the taking out of a policy with the intention of committing suicide after the completion of the contract. Any suicide not so premeditated can be covered by a small premium overhead, and, in fact, is covered by the figures of the ordinary tables of mortality. And to show that on this score there is but little selection against the Office under any circumstances, I may mention that the policies of the Office with which I am connected have not for eighteen years past contained any suicide clause whatever, and yet during the whole of that time, though many of the assured have committed suicide, there has been no single instance in which it could be alleged, or even suspected, that such a termination to the policy was contemplated when it was first taken out. I notice, however, as an example on the other side, the report of a recent very remarkable case in America, where a policy is being contested on the ground of fraud—an impecunious policyholder, it is alleged, having committed suicide soon after he had taken out an assurance for \$250,000 on his own life, which he ingeniously made over by will to local charities, and to the lawyers who would try the case if it were disputed.

In short, whenever there is found to be material selection against the Office, either by the action of the proposer in choosing

the Office, or by that of the Office in going out to seek the proposer, caution is necessary. On the other hand, where the cases come, as it were, mixed, and no trace of selection is observable or can be alleged, it is desirable to draw as few distinctions as possible, and to classify all policies alike under a general table of mortality sufficient to cover every risk.

I do not, however, attempt to define what *material* selection is. The case is obviously not one for exact definition, but rather for each Office to judge of from its own point of view, by the light of common-sense and expediency. On the whole, however, I do not anticipate, even allowing some improvement in the death-rate throughout the whole country, that the immediate future will see any material alteration in the average rate of mortality experienced by the generality of Life Offices; for the reason that increased competition, with a greater latitude in the selection of risks, will probably tend to keep the mortality experience of Offices down to at least the old rates.

As for *expenses of management*, I consider these by far the most likely to lead to difficulty of any of the three elements of uncertainty which I have referred to, and therefore to be the most deserving of care, though, for the reason that they may be adjusted more rapidly than the other two if occasion calls, the ultimate danger from this cause, except to very young companies, may not perhaps be altogether so great. While distinctly of opinion that it is well to have a sufficient number of Offices to ensure variety and competition, I am not one of those who are ready to welcome every new-comer, or to give sanction to the view that the more competitors there are in the field the better. On the contrary, I consider that the present superabundance of Offices tends to the direct injury of the public in encouraging undue competition through the payment of extravagant commissions. This is an evil which is growing to a great height, and at the same time can hardly be regulated except by the mutual good sense of the Offices themselves; but I would take the present opportunity of entering my protest against the practice, which leads to unseemly strife for business, and, in many instances, involves abuse of or unfair comparisons with rival companies, to the infinite discredit of all concerned. Managers indeed require to use all their influence at times to

check their subordinates in the use of unfair means of candidature ; but the whole official staff should be as jealous for the good name of their Office in this as in other things, and should invariably be taught to regard such conduct as a falling away from what is honourable, to be visited with due punishment whenever it is brought to light. I would further add that, in the event of any revision of the Act of 1870 (such as I have recommended) taking place, probably the most needed amendment would be a provision for exhibiting the rate of expenditure of each Office in connection with its new business, if proper queries could be framed to bring out the desired information. The other expenses of management continue, for the most part, to be kept within reasonable bounds with Offices of good standing, and I shall not now further refer to them.

Taking a glance next at the general direction of Life Assurance business, it appears that two distinct tendencies of an opposite character are at work. First, there is the tendency towards making a life policy as nearly on a par with an ordinary first-class investment as the circumstances of the case will admit, by abolishing as fully as possible all restrictions and limitations, and reducing to a minimum the chance of forfeiture through oversight or temporary inability to keep up the regular payment of instalments. Towards this object, the insistence on the plans of Endowment-Assurance and Whole-term Assurance by a fixed number of payments securing proportionate parts of the total sum assured, is directed, as well as the various methods for keeping a policy alive by loans secured on the surrender value ; and something of a revolution has been effected by the more general promulgation of these systems with a large class of persons, to whom a provision by such well-guarded means more obviously commends itself. Such a tendency is worthy of all encouragement, and is a fulfilment of the final and complete object of the beneficent idea of Life Assurance. The Life Companies are also doing a useful work in the same direction by granting annuities, which, owing to the scarcity of first-class investments available to the general public, and the low returns from them, are being more largely dealt in than formerly.

On the other hand, there is an opposite tendency, which shows itself in the American Tontine systems, into which the spirit of

gambling, as opposed to that of true investment or protection, largely enters, those who take part in such ventures not engaging in them from prudential so much as from speculative motives. Though occupying distinctly a lower level than the first class of transactions that I have alluded to, there is perhaps no great harm done by their existence side by side of the others, *so long as the conditions are distinctly understood by those who enter into them.* But in many cases discredit has been brought upon the Offices engaging in this class of business by reason of their having indulged in extravagant "estimates" of the benefits likely to be conferred on the participants, and some bitterness has very naturally been engendered in this country between the native Offices and their American competitors, who have resorted to such questionable means of securing patronage.

Of the system of Assessment Assurance, which is just now endeavouring to establish a footing in this country, it is difficult to speak with patience; and I could not advise any sane person to get mixed up with it, unless he has more money than he knows what to do with, and is singularly wanting in devising means of spending it. It is not protection, for it does not protect, and it is not speculation, for nobody seems to win.

Besides these changes in general principles, others of detail are constantly being adopted, or suggested by way of novelty, or to meet some real or fancied requirement; nor, though some of them are fantastical, is their introduction to be deprecated, for they prove the existence of vitality and energy, and of a disposition to extend the benefits of Life Assurance to new classes of the community, or to make them of greater use to those already in possession of them.

And now a word in conclusion with regard to our own more personal aims and objects.

It seems now to be the prevailing custom at Opening Meetings, such as ours to-night, to concentrate the leading principle, which the speaker wishes to emphasise, into a motto or maxim, to be set forward as a guide for conduct; and, following this example, I would to-night embody what I would like you best to remember in two short phrases.



The first is, *Be thorough*—whatever your hand finds to do, do it with all your might. Let there be no half-heartedness, no slurring of work to get it over, but an intelligent interest in it for its own sake, and because it *is* your work, and because life is not worth living without a set object in which to take a lively and special interest.

The second of my maxims is, *Noblesse oblige*—My nobility compels me—the old motto of chivalry, expressing that the sentiment of honour, and of regard for one's-self and those around one, absolutely forbids a dishonesty or a meanness. We are none of us here, I fancy, of noble birth ; but the old feeling, I hope and believe, has levelled down with the age, and still survives in a wider circle under the name of *gentleman*, which should connote for you all the man who lives a life of self-respect, while at the same time equally respecting the rights and feelings and even the prejudices of his neighbours ;—that name, I trust, no member of this Society will ever tarnish.

Finally, I would say but one word more, and that is to advise each of you to have a sphere of activity—and that as wide a one as you have opportunity for—outside the range of the chief business of your life. I would earnestly recommend you to use every opportunity which presents itself of extending your culture and knowledge of the world, whether by travel or by mixing in the society of well-educated people, so as to infuse into your life as much of variety, and with it as much of sweetness and light, as possible.

If you have any special taste, cultivate it, whether of sport, or art, or science, or study of nature ; and if you have a capacity for the keen enjoyment of *all* God's works and gifts, so much the better, for so will you make yourselves well-cultivated and many-sided men, suited to take a fitting part in life, and to enjoy all its opportunities and advantages, as God intended they should be enjoyed.