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Life Office Investment—1850 to 1900

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Life Office Investment—1850 to 1900

BEING .

THE INAUGURAL ADDRESS FOR
SESSION 1900-1901

BY

A^w H. TURNBULL, F.F.A., F.I.A., F.R.S.E.

MANAGER AND ACTUARY, SCOTTISH WIDOWS' FUND AND LIFE ASSURANCE SOCIETY

HONORARY PRESIDENT OF THE SOCIETY

Life Office Investment—1850 to 1900.

GENTLEMEN,—When you did me the honour to appoint me your President, and gave me for the fourth time the privilege of addressing you from this chair, I was within a few weeks of completing the fiftieth year of my business life, and my thoughts dwelt much upon the changes I had seen in that time.

Such being the case, you will not be surprised that I decided to offer you a retrospect of some one important branch of our business. I selected Life Office Investment, of which I think I can claim to have had an unusually long and varied experience.

In the treatment of my subject I shall endeavour to confine myself to a narration of such facts, and to draw such inferences from them, as I can reasonably hope will interest and instruct the younger members of the Society, and which, at the same time, will serve to remind their seniors of the steps by which our present notions of what is safe and advisable in the investment of the funds of a Life Assurance Office have been arrived at.

As the extent and condition of the fields in which investments have been sought have an important relation to my subject, I must ask you to bear with me while I contrast what these were in 1850 with what they are now, particularly in respect of population and wealth.

The United Kingdom is the principal of these fields. Its population, about twenty-seven and a half millions in 1850, is now estimated at fully forty-one millions, an increase of 50 per cent. Indeed, the increase in Great Britain has been more than 50 per cent., as the population of Ireland, which was six and a half millions in 1850, has fallen by two millions. Then as to Wealth, or Capital, Giffen estimated it at £8,500,000,000 in 1875, and showed that it had increased by £2,400,000,000 (or 240 millions per annum) in the previous ten years. In 1885, using data similar to what he had used before, he estimated it at £10,000,000,000, showing an increase of £1,500,000,000 (or 150 millions per annum) in the ten years. Following Giffen's method, but *very* roughly, I now estimate it at £11,000,000,000, showing an increase of £1,000,000,000 (or 67 millions per annum) in the fifteen years.

The Capital of the United Kingdom I believe to have been less than £5,000,000,000 in 1850,¹ consequently it has increased in the interval by fully 120 per cent. The amount of it per head of the population in 1850 was from £170 to £180. If my estimate of present Capital is nearly correct—I believe that if wrong it is an underestimate—it is now equal to from £260 to £270, or fully 50 per cent. more, per head, than it was in 1850. Looking to the improvement in the general style of living which I have witnessed in these years, due in part to increase in the emoluments of workers, and in part to the cheapening of many necessaries and luxuries, I have no hesitation in saying that a far larger proportion of the forty-one millions of population are in a position to avail themselves of life assurance and thereby to give us funds for investment, than was the case with the twenty-seven and a half millions fifty years ago, while their work has enormously increased the home field of investment, and—what from our point of view is not so agreeable—has added largely to the number of Capitalists, and of Trust Estates, to compete with us for the best of them.

The Government of India was in the hands of the East India Company in 1850, and remained so until the autumn of 1858, by which time the Mutiny, which broke out in 1857, was nearly suppressed. There were no railways in that country until 1853, and no Suez Canal until 1869, and though, as the outcome of the persistent efforts of one man, Lieutenant Thomas Waghorn, who was rather thwarted than encouraged by those who had most to gain by his success, there was land transport across the Isthmus of Suez in connection with steamships touching at Alexandria and Suez, yet the bulk of the traffic to India still went round the Cape.

In South Africa the Orange Free States had not come into existence. The Transvaal, founded two years previously, was not declared independent until two years later, and the originator of the project of a Cape to Cairo Railway was not born. The Cape Colony and Natal were known to be healthy, indeed were to some extent health resorts, but they were more or less unsettled, and danger then, and until much later, occasionally arose from the preponderance of natives. The Sahara was supposed to cover nearly the whole interior of the continent, and the British settlements on the West Coast were well known to be, for Europeans, among the most unhealthy places in the world.

In Australia, the best known parts of which were occupied as convict settlements, the free settlers were few in number, and it

¹ 'The wealth of the people (of *Europe*) all told, which would probably not have been reckoned at more than 5,000,000,000 at the beginning of the century, must be reckoned now by tens of thousands of millions.'—*Sir Robert Giffen, Manchester, 17th Oct. 1900.*

was generally believed that all but the fringe of the continent was a Desert. The discovery of gold early in 1851 increased the elements of disorder and the risks to residents, particularly to those who engaged in gold-searching. There was little wealth there in 1850. Now, though the population is small for such a vast country, the wealth per head is comparatively large—and so are the public debts—yet such is the credit of the Australian Colonies in the British money market that they borrow on remarkably easy terms, while of late the Owners of real property have had no difficulty in obtaining advances on it at as low rates as are current in England.

New Zealand was a promising Colony, not until years after disturbed by native wars, but the European population was, and still is, comparatively small. It is now financially in almost as good a position as Australia, and in the matter of climate is preferable.

In North America—in which I include both Canada and the United States—the settled population was to be found almost exclusively well to the east of the Mississippi and the Great Lakes. There was a very *unsettled* population in California, drawn there by the discovery of gold in 1847, and the British settlements on Vancouver's Island and the mainland adjoining were little known. The population of the United States in 1850 was 23,192,000, of which some 3,085,000, or 13·3 per cent., was coloured; it is now estimated to be 78,300,000—three and a third times as large—including nine millions, or 11·5 per cent., coloured. The wealth per head was estimated at £60; it is now estimated at over £200, but the distribution is very unequal.¹

The position of States on the Continent of Europe has changed much in the fifty years, principally as regards Germany, Italy, and France. Few, if any, British offices sought investments in them till recently, but their governments are all now in fair credit financially, the municipalities of some of them find a ready market in this country for their bonds, and Continental loan agents tell me that they have customers for Mortgages on Real Estate among British Life Offices.

China was little known beyond the British settlements, and was certainly not a field for investment, and Japan was a *terra incognita*, foreigners being rigidly excluded until 1853. Now each of these countries has a National Debt of its own, held in part by Life Assurance Offices, and, according to the *Boston Standard*, Japan has seventy-three Life Offices; it has also an Institute of Actuaries,

¹ The Democratic party some years ago asserted that Protection—to which they are opposed—has 'concentrated one-half of the wealth of the great Republic in the hands of 17,000 individuals, and handed over to 250 capitalists one-twelfth of the total assets of 63 millions of citizens.'

representatives of which are to be met with at meetings of the International Congress.

So much for the fields in which Life Offices seek investments. What I have said of them will bring home to you the change which, during the last fifty years, has come over the world, and in particular over those parts of it inhabited or governed by an English-speaking race.¹ Districts, accounts of which we have within that time received from their *first* explorers, whose experience of dangers, difficulties, and privations formed not the least interesting part of their narratives, are now studded with homes of the white man and covered with his work. Many hundreds of thousands of square miles have been added to his heritage, and now have a value they never had before, a value which increases with every year of his presence.

It has fallen to my lot of recent years to visit some of the new places of the earth, and nothing interested and astonished me so much as to find law, order, comfort, many luxuries, and many signs of increasing wealth in the once dreaded Bush of Australia and Tasmania, and in the once lonely, but Indian-haunted prairies, and the sites of old mining-camps, in America—all brought about in comparatively few years.

An increase of population in our own old land, and the same combined with the acquisition of new land in America and Australia, has been accompanied by an enormous increase of national wealth, much of which may be classed as 'unearned increment,' a kind of wealth which in my opinion fluctuates more in value, in new countries at least, than wealth derived from 'accumulated labour'—the old definition of Capital.

The value attached to Town sites and to Buildings in new countries in many cases exceeds the value attaching to them in cities of greater size and importance in this country; to the land, usually from some fancied difficulty in the way of extension; to the Buildings, in consequence of the cost of labour, which will almost certainly fall with an increase of the Artisan population—considerations to be borne in mind by any who are tempted to buy, or to lend upon, House property in New Countries.

In this connection I may tell you that in America, where the

¹ A writer in the *Times* a few years ago estimated that of people speaking European languages at the beginning of this century, 19·6 per cent. (31,000,000) spoke French, 18·4 per cent. (30,000,000) spoke German, and barely 13 per cent. (21,000,000) spoke English, while at the time he wrote 31 per cent. spoke English—twice as many as spoke any other European language. Speaking at Manchester, 17th October, Sir Robert Giffen estimated the population of the United States with those of the United Kingdom and her self-governing Colonies at 135,000,000. A fraction of these, as in Canada, do not speak English, but on the other hand there are many English-speaking in our Crown Colonies and Dependencies.

Tramways are all, or nearly all, in the hands of private companies, they run so far beyond the City Boundaries, at such low fares, that in several places, where the inhabitants desire fresh air, and light taxation, the residential portions are falling in value, the demand for town sites for business purposes not being able to keep pace with the exodus. Has dread of this anything to do with the desire manifested by British City fathers to acquire and control our Tramway Systems?

An increase of population and a reclamation of waste lands are not the only factors which have contributed to the World's wealth and influenced investment during the last fifty years. Of many others, perhaps the two most outstanding are the enormous additions to the World stock of above-ground gold, and—at least as far as this country is concerned—the introduction of limited liability.

In the early fifties the Gold discoveries made in California in 1848, and in Australia in 1851, gave rise to much discussion as to the probable effect on prices, and on debts, of the great increase in the commodity by which they were measured, in the few countries then having a Gold Standard. Between 1850 and 1870 the output is said to have been of the value of from 30 to 40 millions sterling annually. It fell off subsequently owing to the exhaustion of placer deposits, but has risen again since the discovery of gold in South Africa, Klondyke, and Western Australia, and the opening of rich mines elsewhere.

As the gold produce of the world before 1848 did not exceed five millions sterling per annum, a fear that the value of gold as compared with that of other commodities, and consequently its purchasing power, *must* decrease, was very generally entertained by persons interested in deferred payments. 'The value of money is inversely as general prices, falling as they rise and rising as they fall.' In other words, gold being our standard money, a depreciation of it is the same thing as an appreciation or general rise in prices and *vice versa*. Prices did go up for several years, but there were other influences at work than increased production of gold: there was the demonetisation of it by Spain, Portugal, and Holland, which threw coin to the value of nearly nine millions and a half on Paris in 1850-51; there was the Crimean War, and the Indian Mutiny later, and then the Civil War in America: it was not until 1879 that, as compared with gold, prices fell so low as they had been in 1850. Nevertheless there were not wanting financiers who held that the effect of the discoveries would be counterbalanced in some way, and that any disturbance caused by them could be but temporary. Newmarch, a Statistician, Actuary, and Banker, who is probably best

known as having assisted Tooke in the preparation of his two last and most famous volumes on prices—those covering the years from 1848 to 1856 inclusive—took this view. As early as 1850 he wrote, ‘There seems to be no authority for expecting that, under contracts now existing, creditors will be sacrificed to debtors; that the recipients of fixed incomes will be hopelessly impoverished; or that capital will cease to command a reasonable rate of interest,’—and gave his reasons. Measured by a standard he himself may be said to have invented, and which to this day has been continued by the *Economist*, his forecast as regards prices was remarkably correct. There have been many ups and downs caused by events quite outside the production of gold, but, as shown by the *Economist* ‘index numbers,’ derived from the prices of 1899, the purchasing power of a sovereign was then if anything a little more than it was at the time Newmarch wrote. Whether his forecast regarding interest was as correct, depends upon the view he took of what could be considered a *reasonable* rate. It was the recipients of *fixed* incomes that he endeavoured to reassure, not those of incomes derived from interest.

How is it that the prices of commodities have been so little affected by the increase in the supply of gold, an increase which, if Mulhall’s estimate of 1885 is correct, must now have brought the total supply of gold above ground up to four times what it was in 1850?

Much has been taken up by other large nations adopting a gold standard of currency, and much by the increased demand by all nations using it as money caused by the requirements of an ever-extending Trade, but it is thought that the chief factor has been the cheapening of production of other commodities and of carriage.

I dare say few of you have seen a field of standing grain cut with a sickle and thrashed out with flails on a barn floor, but such processes were common in 1850 and for years after—you can judge at what a cost of labour. The introduction and gradual improvement of reaping-machines, of steam-thrashing machines, of steam-ploughs, and of other labour-saving agricultural implements, has reduced the cost of the cultivation of grain at home, and at the same time has enabled the sparse population of our Colonies, and of districts of the United States, to cultivate large tracts of land which might otherwise have been left uncultivated for years to come. This, coupled with cheaper carriage by land and sea, has kept down the price of that principal form of produce, and where improved methods of cultivation and harvesting have not kept down the price of other produce, as in the case of raw cotton, which has risen, improved machinery has reduced the cost of clothes manufactured from it.

Then the teachings of Science have enabled us to make more

than formerly of our Iron ore, and other mineral substances and dye-stuffs, besides enabling us to supply ourselves with such 'produce' as butter, which never came from milk, and egg powders, that were never inside a shell, while machinery of a labour-saving and constantly improving kind is now employed in almost every manufacture, from the building and arming of a line-of-battle ship to the making of the parts of a Waterbury watch.

Compared with 1850, five or six times as much steam power is now used. We have three times as many miles of railway in this country, and at least twelve times as many in the world, including railways in India and Australasia, where there were none, and in Canada where there were only some 400 to 500 miles.

Where railways can be used, land carriage is reduced to one-sixth of what it was, and the steamship of to-day carries in a year five times as much merchandise as the sailing ship of equal tonnage then more generally used.

Except in the case of some few companies to which limited liability had been given by Royal Charter, Letters Patent, or Act of Parliament, the shareholders of Joint Stock Companies were, until 1855, liable for the debts of the company to their last shilling. In August 1855 an Act was passed (18-19 Vic. c. 133) 'for limiting the liability of members of certain Joint Stock Companies,' but it did not extend to Scotland, a disability which was removed in the following year by 'The Joint Stock Companies Act, 1856' (19-20 Vic. c. 47) applicable to the whole country. Banks were excluded from the privilege until 1858, and those in Scotland did not take advantage of it until after the failure of the City of Glasgow Bank in 1878.

Ability to form Joint Stock Companies with limited liability has had the effect of greatly increasing the number of Companies not only in this country, but in such of our Colonies and such foreign countries as have adopted the principle and, as a large proportion of these companies take up money on loan, their obligations offer a large and ever-extending field for investment, but one which has to be cultivated with great caution.

Since 1850 great changes have taken place in the views entertained by the Directors and Officials of Life Assurance Offices as to the investments suitable for funds in their charge.

In the Office with which I am now connected, the Directors of which fifty years ago invested in much the same securities as the Directors of other Scotch Offices I have knowledge of, nearly four-fifths of the Funds were lent upon security of land, or of interests in land, *in Scotland*, the remainder being lent to policyholders on security of their policies, and to Railway Companies on Debenture ;

or invested in the purchase of Government Annuities, and of Stocks of the Bank of England and the three chartered Scotch Banks. Some Scotch Offices made advances on land in England, and some on land in Ireland, but the security was not considered so perfect as that of Scotland, owing to the absence of a complete system of Registration, and an extra rate of interest was looked for and in those days obtained.

Among loans on land, loans under the 'Private Money Drainage Act,' passed in 1849, were beginning to appear, but little was done in that way until the business was taken up, and preliminaries carried through, by the Drainage and Improvement Companies, the first of which also came into existence in 1849. For many years these loans were a favourite form of investment with Assurance Offices, and one for which few other capitalists cared to compete. They are now either much rarer than they were, or they are disposed of at rates too low for the Assurance market.

Among loans on interests in land were loans to heirs of entail in possession, which then usually took the form of a Bond of Redeemable Annuity, now seldom if ever heard of. Messrs. Law and Irvine, in their *Law of Rights in Security Heritable and Moveable* (1897), state that this system of borrowing upon Annuity was devised to evade the Usury Laws. The borrower sold an annuity to the lender at a certain price, reserving a power of redemption at the same price, which was practically the amount of the advance,—Policies of Assurance to the amount of the price, or advance, were effected by the lender on the life of the borrower, and the borrower's life interest was assigned in security of the Annuity, which was for an amount sufficient to cover interest on the sum paid (or advanced) as well as the premiums for assurance. This form of security brought the Offices transacting it large assurances of a class we now see little of in Scotland, the Rutherford Act of 1848, followed by extending Acts of 1875-1882, having put it in the power of Heirs of Entail in possession, at first with consents, and latterly without consents, but on payment, or consignment, of compensation, to borrow upon the fee of the estate, dispensing with Life Assurance. Under the Bond of Redeemable Annuity the obligant was bound to pay the Annuity, and could redeem it at pleasure, *but was under no obligation to do so.*

I understand that the Bond taken from a borrower on life interest since the repeal of the usury laws is much like other Bonds, *requiring payment of the principal when called for*, when, of course, on repayment the security, consisting of a charge on the life interest for premiums of assurance and for a higher rate of interest than it is intended to exact—except on default—and the policies would be given up.

The Bond of Redeemable Annuity was by no means the only

form of security 'devised to evade the Usury Law.' According to Professor Nicholson,¹ Walter Ross, in the introduction to his *Lectures on the Laws of Scotland* (1793), shows that 'to the devices fallen upon to defeat these Laws the greatest part of the Deeds' then 'in use both in England and Scotland owe their original forms.'

With a modification in 1839, continued in 1850, exempting certain bills of exchange and promissory notes from their operation, these Laws—which were continued in force down to August 1854—had in Great Britain, from the time of Queen Anne (1713) to that date, made a charge of more than 5 per cent. illegal. Before Queen Anne's time—and I understand that in Ireland even after her time—the legal rate was higher.²

Although attempts to regulate the charges of money-lenders have for centuries been made and failed, that apparently does not discourage the legislator of the present day. This very day (1st November 1900) an Act to regulate money-lenders came into operation which will increase the risks of the business, and as an almost certain consequence the cost of accommodation to such needy borrowers as object to the publicity attending an application to a court for relief.

In Ireland many estates were thrown on the market after the famine of 1848, most of them heavily encumbered, and owing to the difficulty in making up titles few capitalists could be found to purchase or to make advances upon them. Between 1849 and 1850 Acts of Parliament were passed under which a Court, known as the Encumbered Estates Court, afterwards superseded by the Landed Estates Court, granted titles freed from old encumbrances, which greatly encouraged dealings in Irish land and induced many capitalists—Assurance Offices amongst others—to make advances on security of it. From the point of view of a mortgagee, or a mortgagee's Irish adviser, the security was considered perfect, particularly for loans in those parts of Ireland where tenants had by usage a pecuniary interest in the land—a tenant-right—sometimes of larger amount than the landlord's interest, which was very naturally regarded as something like a ground rent backed by the tenant's interest. However, when the remarkable Land Laws of 1881 onwards came into operation, it was found that the landlord's interest could be, and very generally was, cut down, and that the tenant really had the first charge on the property for his tenant-right—an interest now legally recognised in all parts of Ireland.

¹ *Encyclopædia Britannica—Article, Usury.*

² 'It was not until 1887 that the last provision against usury—a provision limiting the rate of interest in the East Indies to 12 per cent.—was removed from the Statute Book.'—*Scotsman*, 23rd October 1900.

Land legislation for Ireland during the last twenty years, with the uncertainty of what further legislation may be in store, has driven much Life Assurance Capital out of that country, and I rather wonder that Assurances Offices still make advances there. For that matter I am surprised that so much is still lent upon landed property in Great Britain, on easier terms than were common before such enactments, as it is by no means improbable that the relation between landlord and tenant may be interfered with on other estates than those in Ireland, or in the crofter districts of Scotland. The holding of real estate is not now a necessary qualification for a seat in Parliament, and the landlord's interest is less and less represented there.

The Government Annuities referred to as among the investments of fifty years ago, were annuities on lives sold by the government of the day for the purpose of raising money under the provisions of an Act of the Parliament of 1830 (10 Geo. IV. c. 24). The purchasers were allowed to select the lives, and these at the outset might be of any age over 15. In March 1834 the Commissioners of the National Debt gave notice that they would not grant annuities on the lives of nominees over 65, and that was probably the age of lives on which most of the annuities held by Life Assurance Offices were purchased. They continued to invest in this way up to 1852. The country was searched for hale old men with family histories showing longevity—budding centenarians—and it is understood that very considerable profits were made by the purchasers.

There was considerable difficulty in proving the ages of the nominees, and it is not to be wondered at that some errors occurred, principally due, I believe, to parents, intent on preserving a name in their family, giving it to a second son when the first to bear it died in infancy. Some such errors were put right in the same way as some Assurance Offices put right errors in age of an assured life. That is, the Government either treated the contract as for the amount the consideration for it would purchase at the correct age, or required the purchaser to pay up what might be called the arrear of price, with interest; but in 1874 the Government officials then in charge, taking a very different view of the matter, declared contracts where there had been error to be cancelled, and required an accounting at 4 per cent. simple interest, a course upheld by a Vice-Chancellor and afterwards by the Court of Appeal in an action brought against the Atlas Office. In accordance with this judgment, eight Scotch Insurance Offices and a Scotch Bank had to refund among them £18,332 in connection with annuities purchased on two lives thirty years previously. What, in the opinion of the sufferers, made their case particularly hard was the fact that these lives had been selected

from nominees placed on the Government books by other purchasers, a practice provided for in the Act and encouraged by the Authorities.

I am not prepared to say that, under no circumstances, could the holding of Stock of the Bank of England cause alarm to policy-holders, but I am certain that the holding of the Stocks of other Banks might do so, as in times of panic, such as on the failure of the Western and of the City of Glasgow Banks—times when men's minds were much exercised by the far-reaching effect of liability. I have seen policies surrendered both to a mixed and to a mutual office, for very dread of what might have been had the offices held shares in one of those banks. In the case of the Mutual Office, an assurance that the Directors were prohibited from investing in securities carrying liability, and that the office could have paid all the debts of the City of Glasgow Bank without calling on the members to contribute directly, was of no avail. 'Directors did not always keep within their powers, and crushing failures have still to happen.' The limitation of the liability of banks doubtless lessens the feeling of dread entertained of their Stocks, but it has not completely dispelled it, and in the circumstances—though I think the stocks of the Chartered Banks of Scotland offer a very safe and remunerative security—I would hesitate to recommend an Assurance Company to hold them.

Making advances on Reversions and purchasing Reversions, were forms of investment favoured by some Assurance Offices in 1850, as now, but they are not forms of which I have had much experience, owing possibly to prejudice on my part occasioned in some measure by difficulty experienced in exercising powers of sale, at a time when there was not the ready market there is now, and in some measure by the circumstance that before 1867,¹ when a reversion purchased *in England* fell into possession, the purchaser could be called on to show that he had paid a full price for it. Such calls were frequently made, and it was difficult to satisfy the Court that the price paid on the chance of the reversion not falling in for many years was 'full and adequate' when it fell in in few. This was particularly the case when the reversion was of the nature of a *post obit*.

In Scotland there was not the *same* risk in dealing with reversions, or even with *post obits*, but there was another one connected with *post obits*—a difficulty in preventing the grantor's other creditors from obtaining an equal or a preferential ranking

¹ In 1867 it was enacted that 'No purchase, made *bona fide* and without fraud or unfair dealing, of any reversionary interest in Real or Personal estate (in England) shall hereafter be opened or set aside merely on the ground of undervalue' (31 Vic. cap. 4).

on the reversionary estate. I have seen this attempted by inhibition, but have been recently advised that that does not set up so effectual a barrier as was supposed.

I understand that a brother Manager, of much greater experience in such matters, when making advances on reversions takes what on the face of it appears to be an absolute conveyance to the subjects, and gives a power of redemption within an agreed on time on repayment of the purchase money, with interest. I was much taken with this arrangement, as it appeared to me to remove all difficulty in the event of the borrower—for such in reality the seller is—neglecting to pay interest. But I have had doubts, since a conveyancing Counsel to whom I recommended the form declined to use it, holding that the power to redeem, though restricted, made the Deed a Mortgage, and quoting the legal maxim ‘once a mortgage always a mortgage.’

Railway Debentures were one form of security taken by Assurance Offices in 1850, at which time it was necessary to look very narrowly into the powers of the borrowing company,¹ and into how these powers had been exercised, and to judge by a note I find on a published balance sheet of the time, they were not regarded as affording unexceptionable security. However, as time went on they came to be more favourably regarded, and were largely held by Assurance Offices.

Early in the sixties public attention was directed to some flagrant abuses of borrowing powers, and in 1864 an enquiry was held by a Select Committee of the House of Lords which resulted in the passing of two important Acts of Parliament—‘The Railway Companies Securities Act, 1866’ (29-30 Vic. cap. 108), and ‘The Railway Companies Act, 1867’ (30-31 Vic. cap. 127).

The first requires every railway company in the United Kingdom, authorised by Act of Parliament to raise any Loan Capital, to furnish to the Registrar of Joint Stock Companies in England, half yearly, particulars of the Loan Capital authorised and of the amount thereof issued, and further, that each Mortgage Deed, Bond, or certificate of Debenture Stock issued, is to bear an endorsement by Directors to the effect that the loan capital represented is within the Company’s borrowing powers. The other gives ‘all money borrowed or to be borrowed by a Company on Mortgage, or Bond, or Debenture Stock, under the provisions of any Act authorising the borrowing thereof . . . priority against the Company and the property from time to time of the Company

¹ On the occasion of a loan to a railway company in 1849, of which I have knowledge, *nineteen* documents had to be produced to satisfy the lenders that the sum required was within the company’s borrowing powers. These included Acts of Parliament, certificates by the Sheriff of a County, and affidavits and certificates by the Secretary of the borrowing company.

over all other claims on account of any debts incurred or engagements entered into by them after the passing of this Act' (Section 23).

Before the passing of the Act of 1867, the holders of obligations such as Lloyd's Bonds could 'sue upon them and recover judgment against the Companies; and success in any conflict for priority of claim between them and the holders of Statutory Debentures would appear . . . to be only a question of more or less diligence.'¹

A Lloyd's Bond is an acknowledgment of indebtedness to a contractor 'for works executed and materials supplied . . . for the purposes of the undertaking, as certified by the Engineer.'

The origin and nature of these Bonds was thus explained to the Select Committee by Mr. Lloyd: 'A railway company had exhausted its borrowing powers; it had not been able to call up the whole of its share capital; some of its shares had been forfeited; the works had turned out more expensive than it was originally estimated they would be, and the directors were in a difficulty; the contractor refused to go on without money; they had no money to pay him; and the question arose what was to be done? It seemed to be an obvious solution of the difficulty that, as there was no prohibition against railway companies securing their debts, which they had *bona fide* contracted for the purpose of their undertaking, they should give him something in the shape of an acknowledgment, under seal, with which he could go to his bankers, or some financial body, and obtain an advance of money, and by that means be enabled to complete the line. The line being completed, the shares would be taken up, or the company would have to come to Parliament to get powers for an increase of capital, and so, by degrees, this floating debt would be extinguished.' Lloyd's Bonds 'are, in fact, nothing more than Railway Exchequer Bonds. They are the representation of a floating debt, which is to be capitalised some time or other, and must be paid, because it is a burden and charge upon the undertaking, which cannot be got rid of except by payment.'²

There can be little doubt that Lloyd's Bonds were of great use in the circumstances they were designed to meet, and in some other circumstances, but they came to be abused, and consequently were destroying confidence in Debentures, hence the recommendation of the Committee and the passing of the Act of 1867, which Act has had the effect of restricting their use to companies earning considerably more than suffices to pay Debentures and other obligations over which they can no longer obtain a preference in ranking, and little was heard of Lloyd's Bonds for some years,

^{1, 2} *Report of Select Committee on Railway Companies' Borrowing Powers, 1864.*

until the Great Central Railway recently issued them to contractors to the amount of nearly three millions sterling.

In 1867 railway companies were authorised to issue Debenture Stock in place of Debentures, a change which it was thought would be of mutual advantage to the railway companies and to their creditors, but, as things have turned out, the creditors have clearly had the best of it. The companies made a great mistake when they undertook a *perpetual* obligation. They should have given Bonds for a long term of years, as the American Railways did or, what is now common with borrowing governments and companies, reserved the right to repay after a given time with or without a moderate premium.

I would have you note (1) that Debentures and Debenture Stock do not give quite the same security. The Debenture secures repayment of the sum advanced as well as payment of interest, the Debenture Stock merely carries a right to a perpetual annuity equal to the amount of the interest at which the capital was advanced, and which capital can neither be called up by the stockholder or paid off by the railway company; and (2) that American Railway Bonds and British Railway Debentures, or Debenture Stocks, are very differently secured. Many American Railways have issued bonds for more than the line cost to construct and equip. Not so in the United Kingdom. There is a standing order of the House of Lords that railway Bills shall not contain a larger extent of borrowing powers than one-third of the capital authorised by such Bill, which standing order is rarely departed from—never, I believe, to the extent of allowing borrowing of an amount equal to more than one-half of the capital authorised. Moreover, the whole of the authorised share capital issued must be subscribed, and one-half thereof must be paid up before the relative borrowing powers can be exercised.¹

Thirty years ago, when I was buying Ground Annals at twenty-two and a half years' purchase, and Railway Debenture Stock to yield $4\frac{1}{2}$ per cent., I told your Society that in my opinion an increase of capital, and of security to the possessors of it, would be accompanied by a gradual fall in the return to be obtained on investments. My forecast has proved to be in some measure correct; I say in some measure, as I certainly never anticipated so rapid or so great a fall as we have experienced, the return from such investments as I have named being now but two-thirds of

¹ Railways constructed by authority of the Board of Trade under 'The Railways Construction Facilities Act, 1864' (27 and 28 Vic. cap. 121) are not allowed to borrow 'a larger sum in the whole than one-third of the share capital authorised by the certificate' granted them by the Board of Trade, and cannot exercise this power 'until the whole of the share capital is subscribed for or taken, and until one-half thereof is actually paid.'

what it was. There has of late been an improvement; still I have very little hope of the tendency to fall being permanently arrested, but at the same time very little fear that any further fall will be rapid.

I attribute the fact that capital has of late commanded a better return partly to an unusual demand for it for purposes of commerce, but principally to the War in South Africa, and to the unsatisfactory position of matters in China. It is too much to expect that the present demands of commerce will last for ever, and War has not the permanent effect on Wealth (or Capital) with which some persons credit it. For one thing Wars are now shorter than they used to be, and though much Capital is directly destroyed, and National Savings are arrested, the whole pecuniary loss appears small when compared with the annual increase of wealth in most countries, and it sometimes happens, as I doubt not will be the case in South Africa, that the pecuniary loss is in time more than met by the increased prosperity resulting from changes brought about by War.

The immediate effect of War is to, more or less, drain the countries engaged in it of currency, usually gold, for the war chest, which in connection with a banking system such as ours leads to an increase of the bank rate for discounts, and that, with a general feeling of uncertainty, cripples credit. Capitalists hesitate to employ their capital, speculators hasten to realise what they hold and to sell for a fall—prices of marketable securities are beaten down and their fall exercises a depressing influence on other values. The *apparent* loss of wealth in the community is something appalling, though fortunately the actual loss only falls on those who have to part with their holdings before confidence is restored.

Some new and remunerative employment for Capital may arise and help to keep up the return upon the whole of the world's accumulations, but it is difficult, it is scarcely possible, to conceive of any general requirement that will at all compare with Railway Construction. Scarcely possible, I say, when I consider the vast amount of capital that Railway Construction has in the last fifty years taken up, and still takes up, though now in an ever-decreasing proportion to the supply—a supply which it probably more than any other use of capital helped to create.

And now, gentlemen, before I close I have something to say to you about your Society, and some advice to offer which I am sure you will take in good part, though it may appear strange coming from one so recently honoured with the position of President.

Your Society was founded full forty years ago, at the instance of Members of the Faculty of Actuaries, for the purpose of drawing together such of the young men employed in their Offices as desired to acquire a knowledge of the theory, as well as of the practice of their business, encouraging them to assist in raising the status of the profession to which they were devoting their time and talents, and to qualify for advancement in it.

The Faculty of Actuaries was then too small a body to undertake frequent meetings with its students, and, moreover, many of those students regarded the original Fellows of the Faculty, or such of them as were principals of Assurance Offices, with such deference, that it was seen few would care to give expression to their views on any subject, by reading a paper, or taking part in a discussion, in a mixed assembly; otherwise it is probable there would have been but one actuarial body, as in England.

The Society has well served the purpose of its founders. Thanks in great measure to it, the Faculty is now a by no means inconsiderable body, and as many of the present day Fellows have for years been members of the Society, taking an active interest in its proceedings, their juniors are accustomed to meet them on equal terms.

I therefore see no reason why there should any longer be two bodies, and am glad to know that there is a movement on foot among you to merge the Society in the Faculty, and that your Committee of Management have gone so far as to instruct a sub-committee, appointed to confer with a sub-committee of the Faculty, that they 'will recommend the dissolution of this Society, provided the Faculty make arrangements to continue the purposes of the Society and its stated meetings, and, as far as reasonably practicable, the rights of its members.' Gentlemen, such a step was foreshadowed years ago, but it appears to me that at no time have we had so fair a prospect as now of its being taken up with success, as we have in the present President of the Faculty, and in my immediate predecessor in this Chair—who was the first to read a paper before the Society, and has read many most valuable papers since—two of the most able supporters and best friends of the Society, gentlemen who have the interests of both Faculty and Society at heart. I need hardly add that if you approve of the action of your Committee of Management, I shall esteem it a privilege to assist in a movement which, I believe, will strengthen the Faculty, improve the status of the Scottish Actuary, and serve to make the seniors of our profession better acquainted with their juniors.