

The following statements show the influence of the expenses of management (including commission), and taxation, on premium income and total income respectively, and on the general progress of the Department :—

					1926.	1927.	1928.
(5) <i>Expenses :—</i>					£	£	£
Expenses of management	..	..	..	..	58,238	58,656	56,076
Commission	..	..	..	..	42,021	38,496	39,669
Total expenses					£100,259	£97,152	£95,745
Ratio of total expenses to—					Per Cent.	Per Cent.	Per Cent.
Premium income	..	..	..	..	17.28	16.17	15.29
Total income	..	..	..	..	10.53	9.84	9.35

These figures indicate a decrease both in actual and in relative expenses during the past two years, notwithstanding the fact that the Department now has the additional expenses of an annual bonus distribution. The relative decrease has been 2 per cent. of the premium income and 1.2 per cent. of the total income, and the significance of this may be illustrated by pointing out that if the Department had incurred the same relative expenses in 1928 as were incurred in 1926 (which were not unreasonable) the total expenses in respect of last year would have been increased by about £12,000. This saving, which has been effected concurrently with an improvement in the efficiency of the Department's services, is of the greatest interest and benefit to the policyholders, because obviously any reduction in expenses has a substantial bearing on the profits.

					1926.	1927.	1928.
(6) <i>Taxation :—</i>					£	£	£
Land and income tax	..	..	..	..	11,965	15,235	22,194
Gross average rate of interest before deduction of land and income tax					£ s. d.	£ s. d.	£ s. d.
	..	..	..	..	5 14 9	5 15 4	5 16 0
Net average rate of interest after deduction of land and income tax					£ s. d.	£ s. d.	£ s. d.
	..	..	..	..	5 11 1	5 10 10	5 9 9

The above statement shows that the increase which has been effected in the *gross* average rate of interest during the past two years has been more than offset by the increase in land and income tax, and that consequently the *net* average rate of interest is slightly reduced. In this connection it is worthy of notice that the amount paid by the Department under the New Zealand Land and Income Tax Act appears to be relatively, if not actually, higher than the corresponding payments of any other life-assurance institution operating in the Dominion. The Department consequently can fairly claim that it is bearing at least its full share, and perhaps more than its full share, of taxation.

(7) *Distribution of Assets :—*

Class of Investment.	Percentage of Total Assets.
Mortgages of freehold property	.. 39.6
Government securities..	.. 28.8
Local-body debentures	.. 13.8
Loans on policies	.. 12.8
Miscellaneous assets	.. 3.2
Landed and house property	.. 1.8

100.0

It will be seen from the above that the Department's assets, which are held in trust solely for the benefit of policyholders, are being invested in sound securities and are a substantial factor in assisting in the development of the Dominion.

(8) *Annual Bonus Distribution.*—It will be remembered that a system of annual distribution of profits was inaugurated last year, and accordingly I append the report of the Actuary, which discloses a net surplus of £212,519 (excluding interim bonuses paid during the year) in respect of this year. Of this sum, £200,287 has been allotted in the form of compound reversionary bonuses upon the sum assured and existing bonuses, the total reversionary bonuses thus allotted amounting to £324,871. The rates of bonus allotted under ordinary new endowment and whole-life assurances when taken as a percentage of the sum assured range from £1 18s. to £2 per cent. per annum for policies one year in force. These bonuses are at the same high rates which were distributed last year, and have been declared in conjunction with the maintenance of the stringent basis of valuation previously adopted. Consequently the results must be regarded as very satisfactory, and will undoubtedly attract an increased flow of new business. It has to be noted, however, as indicated in my report of last year, that on account of the unavoidably high cost of placing new business on the books (about 40 per cent. of the total expenses for last year was for new business) a too rapid increase in this direction tends to reduce the profit-earning capacity of a life-assurance institution. This fact, which is generally recognized by competent authorities, is of special importance to those already having policies with the Department. The actual cost of obtaining new business does not vary greatly as between different well-established life-assurance institutions, but it is a relatively heavier burden in the case of one such as this Department, which charges premiums which on an average are lower than those of other life-assurance offices.

General.—The course of business during the year has been distinctly favourable. New business has been satisfactory—indeed, as previously mentioned, the amount written represents the largest ever transacted by the Department in any one year, and expense ratios show a substantial reduction. The funds have been kept closely and profitably invested, and the net average interest earnings, although slightly lower than those of 1926 and 1927, are still nearly 2½ per cent. in excess of the valuation (3 per cent. OM) rate. And the mortality experience continues favourable.

In conclusion, I desire to express my appreciation of the good work performed by the office and field staffs, which has contributed in a great measure to the success which has been achieved by the Department.

A. E. ALLISON,
Government Insurance Commissioner.