Correspondence.

We do not hold ourselves responsible for views expressed by correspondents.

LONDON LETTER.

London, April 7, 1906.

FINANCE.

The decision of the Directors of the Bank of England to reduce the minimum rate of discount from 4 per cent. to 3½ per cent. surprised nobody, as the air has been full of influences, which would justify a lower official value for money. When the year commenced the Bank of England's gold reserve was under 90 million dollars, a figure which was extremely low even in these years of the lean kind.

An improvement, however, soon set in, and a week ago the Reserve had risen to nearly 143 million dollars. The Reserve for the current week shows a reduction of ten million dollars, but this arouses no comment, as it has been wholly accounted for by the normal outflow of currency to the country in connection with the extra requirements which arise regularly at the end of each quarter. The monetary position in this country is very good at present, and the only wonder is that the reduction of the Bank Rate has been postponed so long. The reason for this must be found in the conditions prevailing on your side of the Atlantic and on the Continent. With money usually dear in New York, and preparations on the Continent for a big Russian Loan, some marks of uncertainty in their action on the part of the Directors of the Bank of England is conceivable.

The story of a prosperous half-year was told at the meeting of the shareholders of the Grand Trunk Railway on the 5th, with Sir Charles Rivers Wilson in the chair. The Chairman in the course of his remarks referring to the subsidiary companies, said the shareholders might perhaps have been disappointed in finding their late acquisition, the Canada Atlantic, show a deficiency in the first year in which it had been taken over. The fact was, however, that the Grand Trunk only obtained possession of the road on the 1st of October, and the deficiency really does not represent what the future of the road is going to be under the new management. Sir Charles had little doubt it would prove a very valuable paying addition.

A cable was read from Mr. Hays, with reference to an increase which is going to be made in the taxation of the Grand Trunk Railway. In 1901 the Michigan Legislature passed a law directed against the Railways, with a view to altering the method in which they were taxed. Hitherto, the Michigan roads had been taxed on gross earnings, according to a sliding scale. But by the Act of 1901 a different form of assessment was established, and it was provided that in future the roads should pay an assessment on the valuation of their property. This is an alteration which would very heavily and adversely affect all the railways in Michigan, of which there are 28, including the Grand Trunk, which is responsible for seven of these railways. Despite a combination of the various companies to test the validity of this enactment, the Supreme Court of Washington has upheld the Michigan Legislature. Railways, and incidentally the Grand Trunk, will be hit, not only to the extent of an increase in taxation in the future, but they will be called upon to pay the arrears of the increased taxation since the passing of the law five years ago.

INSURANCE.

The insurance world on this side is wondering what is going to happen next in connection with the American Societies. The separation of Mr. Haldeman from the active direction of the British Branch of the Mutual Life of New Yor, is strongly recognized to be a matter of regret for the British policy-holders. Nothing has, therefore, transpired beyond this, but there is a far greater security manifesting itself. It is, in fact, argued by the optimists that American insurance in the United Kingdom has finally taken a turn for the better. The advantage of the recommendations of the Select Committee to the House of Lords is looked for in increased safety and all round benefit.

The market in insurance shares has been particularly strong during the past week. Commercial Unions have reached another high record, and at the time of writing the market price of the shares is no less than 460 dollars each. This is a rise of 15 dollars on the week, and it seems to indicate in the eyes of those who cannot see that the present market value is fully justified by the present intrinsic merits of the shares, that there is something else in the wind, which has not yet been made public.

THE SELECT AND ULTIMATE VALUATION VAGARY.

To the Editor of the CHRONICLE.

I quote the following lines from the testimony of Emory McClintock before the Insurance Committee of the New York legislature at Albany, as printed in the March 13th number of the "Chronicle" of New York the editorial organ of Miles M. Dawson, Actuary of the Insurance Investigating Committee:

"Now, the committee has arranged, first, for a system of valuation which saves the necessity of putting up unnecessary reserve during the first five years, and I, for one, approve most heartily. I think that most of the actuaries are entirely content to allow this portion of the bill to go without criticism, without opposition."

In what way is the necessity saved, as alleged by Mr. McClintock? As an advocate of logical consistency and thorough examination of consequences, I think I shall have to rank myself with the minority of actuaries opposed to such a needless and artificial if not absolutely questionable statutory provision as the select and ultimate scheme of valuation. As the laws have always stood since net valuations were instituted in this country, and exactly the same fact would hold true if correct or scientific gross valuations, or valuations involving a proportionate insurance expense assumption as well as mortality and interest assumptions, were in question; the essential object of a valuation of liabilities is understood to be simply to determine what proportion of a company's funds may be fairly treated as reserve liability, and what proportion as surplus. To do this does not require an artificially modified or increased "decrement" or "mortality" assumption. Hence the select and ultimate plan of valuation which virtually involves such an assumption, which may be seen by adapting the accumulation formula to produce its results, can have no other possible utility or effect than to authorize the "anticipation" of a high percentage of "surplus" and dispose of it, supposing it does arise, in a particular desired way, and supposing it does not actually arise, or does not actually arise in "anticipated" measure in the same way, nevertheless, thus revealing a deficiency in spite of the putative gain, as measured or indicated by the reduced reserve. It aims, as it were, to give a certain proportion of anticipated vitality gain to new policyholders of less than a few years' standing, and charge a corresponding extra proportion of expense exclusively to the same class; and hedge or balance this operation by a corresponding reduction of "credit for reserve" in the case of the said class; needless, if there was actually such a vitality gain.

Against a scheme so absurd I must protest. Vitality gain, like any other surplus, if actually arising may be available to balance a deficiency of the specific provision for expense, in meeting the actual expense of a given period, and both the expense and the gain may be apportioned among policy-holders in any way not inconsistent with good general principles of equity, and their contract rights. But the select and ultimate mode of valuation does not treat this case in a wholly consistent, logical, and exhaustive way. Whence it is objectionable. No one has shown this truth more clearly than Mr. McClintock himself, who, for instance, in a recent interview by the Insurance Press of New York is reported to have testified as follows:

"There is an apparent idea that it is improper to use