

amounting to £302,910 as against £290,074, the total bonus allotted three years ago. The following comparison of the 1902 and 1905 bonus allotments will be of interest :—

				1902.	1905.
				£	£
Divisible surplus	..	..	..	167,933	178,994
Interim bonuses	..	..	..	9,300	10,873
Carried forward	..	..	..	476	16,887
Total surplus	..	..	..	£177,709	£206,754

Section.				Cash divided.	Reversionary Bonuses.	Cash divided.	Reversionary Bonuses.
				£	£	£	£
General	..	..	..	149,237	256,949	159,540	269,850
Temperance	..	..	..	18,696	33,125	19,454	33,060
Total	..	..	..	£167,933	£290,074	£178,994	£302,910

The compound bonus of £1 per cent. in the General Section is equivalent to a simple bonus commencing at £1 per cent. per annum to new policies and increasing with the duration of the policies to £1 8s. per cent. per annum in the case of the older policies. When it is considered that the extremely low premiums are in many cases little higher than the usual non-profit rates, and generally much lower than those charged elsewhere, the results cannot be other than highly gratifying to the policyholders, and I see no reason why, with the continuance of a cautious and prudent policy, the bonuses of policyholders in the General Section should not still further improve in the future.

Temperance Section.—Although, as will be seen from the above table, the amount of cash surplus divided among the policyholders in the Temperance Section was greater than at the previous distribution, it was insufficient to keep up the rate of bonus, which worked out at 18s. per cent. per annum, as against 19s. per cent. at last valuation. Since the Act of 1890 was passed, providing for the mortality profit of the two Sections being kept separate, there has been a tendency for the bonuses of Temperance policyholders to decrease. Once only, twelve years ago, has the Temperance Section received the higher rate of bonus; the two Sections have twice received equal bonuses; while the General Section has had the advantage in 1896, 1902, and 1905. These results do not necessarily arise from a higher death-rate; the explanation is that the Temperance Section is too small to avoid fluctuations and contains a large proportion of endowment assurances, from which class of business there accrues less mortality profit than from whole-life policies, of which the General Section is more largely composed. On a matter of so much importance to a large and valued section of the Department's policyholders it was considered desirable to have an independent report, and Messrs. Hardy and King were invited to specially consider the question of dividing profits between the two Sections. In the course of an exhaustive inquiry these gentlemen found that the mortality profit from endowment assurances is less than that from whole-life policies, and decreases with the age of the policies in a greater ratio. As endowment assurances constitute the bulk of the Temperance Section it naturally follows, therefore, that the mortality profit is less, and also that any check in the new entrants will still further diminish this profit. It may be pointed out that there has been such a check, and that the Temperance Section has contracted in size during the past triennium.

The result of their inquiry was that Messrs. Hardy and King strongly recommended that the two Sections should be amalgamated, as they "think that there is every reason to anticipate that in the future, as in the past, there will be very little difference between the bonuses of the two Sections in the event of their being kept apart. The advantages of separate Sections are small, if not problematical, the disadvantages are considerable and clearly visible. Appreciable additional expense is involved by the extra labour thrown on the Department, and there is a constant agitation due to the unexpectedly small difference in the bonuses of the Sections." This recommendation has my entire support, and in my opinion should be given effect to during the current triennium, as I realise that its adoption would greatly benefit the policyholders in both Sections by effecting a considerable economy in the general administration of the Department.

A complete Valuation Statement, prepared in accordance with the Government Insurance and Annuities Act of 1874, is appended.

In conclusion, I may draw attention to the chief aspects of the Department's operations during the three years. The new business returns have improved, the interest income has increased both in amount and percentage, and the mortality experience has been favourable throughout. Moreover, the surrenders have diminished in a marked manner, and the ratio of expenditure to income has continued to decline. Finally, although increased bonuses have been allotted to the main body of policyholders, the Department has at the same time been able to make a substantial reserve which will still further strengthen its financial position.

Respectfully submitted,

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Actuary.

The Government Insurance Commissioner.