

*Expense Rates.*—The ratio of expenses to (a) total income and (b) premium income show a further reduction. The figures for 1931 and the two preceding years are as follows:—

Ratio of expenses—	1929. Per Cent.	1930. Per Cent.	1931. Per Cent.
(a) Total income .. ..	8·79	8·41	7·71
(b) Premium income .. ..	14·40	13·88	12·96

It will be observed that the difference between the ratios for 1931 and 1930 is much greater than the difference between those for 1930 and 1929. A part of the improvement must be attributed to the fact that the new business for 1931 was less than that for 1930. In all life-insurance offices the procuration of new business is very costly, and the payment of commission, medical fees, and other expenses absorbs the greater part of the first year's premiums. If the new business remains practically constant from year to year, the expense ratios will not be affected to an appreciable extent, but a substantial increase or decrease is at once reflected in the expense ratios.

*Annual Bonus Distribution.*—The attached Valuation Report, furnished in compliance with section 40 of the Government Life Insurance Act, 1908, disclosed a net cash surplus of £236,318 (excluding interim bonuses paid during the year). Of this sum, £228,646 was divided in the form of compound reversionary bonuses upon the sum assured and existing bonuses at the same rates as for the past two years. The total reversionary bonuses thus allotted amounted to £377,533. The maintenance of such high rates cannot but be regarded as eminently satisfactory. In view, however, of the operation of the Mortgagors' Relief Acts and the reduction in interest rates provided for by the National Expenditure Adjustment Act, it is not possible to forecast even the immediate future of the probable course of bonuses. In the past, reserves have been constituted with a view to equalizing profits in the event of any extraordinary contingency, or in the event of a sudden reduction—enforced or otherwise—in interest rates. A reduction in interest quickly reduces the fund from which bonuses are derived. If the recent legislation, combined with the results of the world-wide depression, does result in lower profits, policyholders may console themselves with the reflection that they suffer in common with insurers generally, as already practically all companies have been compelled by the exigencies of the times to reduce their bonuses. It is certain that a cautious judgment of the position from time to time is necessary until more stable conditions are reached.

*General.*—The economic depression has, of course, affected the Department in common with similar institutions. In the circumstances, new business for the year cannot be regarded but as highly satisfactory. As might have been expected, the overdue interest is much greater than usual, but there is no reason to believe that the bulk of this overdue interest will not be paid. The Investment Fluctuation Reserve Fund, which was formed in 1890 to make provision for loss or depreciation in respect of the Department's securities, has been strengthened as a precautionary measure. This fund now stands at £270,694 12s. 10d. The wisdom of the fund will be manifest at the present juncture.

During the year a family income policy was introduced, and the applications for this class of business have justified its introduction.

A commencement was also made with the demolition of the Head Office building. This familiar landmark was erected about 40 years ago. Being of three storeys only, it had long been realized that the building was uneconomical, having regard to the value of the site, but it was not until the Hawke's Bay earthquake had shown the danger of structures built in brick without reinforcement that it was decided to erect a steel-framed building which would prove a sound investment and do justice to one of the finest sites in Wellington. It has been found during the course of the demolition that the condition of the old building more than justified the decision to rebuild.

Life insurance is a highly competitive class of business. It is only obtained by intensive canvassing, and, when it has been obtained, strenuous efforts are required to keep it on the books. For these reasons, it is fitting that I should express my appreciation of the good work performed by the members of the staff (office and field), which has materially assisted in maintaining the position of the Department in the forefront of life offices in the difficult times we are passing through.

A. E. ALLISON, Commissioner.