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AN ANALYSIS OF THE INVESTMENT
POLICIES OF LIFE INSURANCE
COMPANIES IN THE UNION OF
SOUTH AFRICA

THE NEED FOR MORE CONSTRUCTIVE LEGISLATION.

BY

E. H. D. ARNDT,
PROFESSOR OF BANKING,
UNIVERSITY OF PRETORIA.

THIRD EDITION



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PRETORIA.

1937.

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First Edition : APRIL 1937.

Second Edition : MAY 1937.

Third Edition: OCTOBER 1937

PREFACE TO THIRD EDITION.

Interest in this little publication continues in unabated fashion and within six months there has been a demand for a third edition. It is sincerely to be hoped that this growing interest in the protection of the public's savings will in the near future lead to the passing of the long overdue more constructive insurance legislation. In the Second Edition three new companies could be added to the long list of associated companies of the "African" group, and that list has now been further extended, in the Addendum, in the present edition.

E. H. D. A.

Pretoria.

October 6th 1937.

PREFACE TO FIRST EDITION.

This publication is a sequel to my lecture on "Safety for Savings" which was published in *The South African Journal of Economics* of September, 1934. An analysis and comparison of one year's insurance returns at that time led me to declare: "But the amazing difference in the case of the individual South African institutions is difficult to understand, and would suggest the urgent necessity of more constructive legislation....." (p.279).

In the present study the returns over a period of ten years have been analysed and compared and an effort has been made to understand "the amazing difference in the case of the individual South African institutions." Though names of individuals and companies are mentioned, this study is exclusively concerned with an objective analysis of the problem of "safety for savings" and the adequacy of our existing legislation and the proposed legislation in connection with Burial Societies.

Grateful acknowledgment is due to the Honourable, the Minister for Finance, Mr. N. C. Havenga, the Secretary for Finance, the Registrar of Companies and the Registrars of Deeds and members of their staffs, as also to Mr. W. F. White, Director of African Consolidated Investments Corporation Ltd., and to the African Guarantee and Indemnity Company Ltd. for highly appreciated assistance in connection with the preparation of this study.

E. H. D. ARNDT.

Pretoria,

13/2/1937.

AN ANALYSIS OF THE INVESTMENT POLICIES OF LIFE
INSURANCE COMPANIES IN THE UNION OF
SOUTH AFRICA.

THE NEED FOR MORE CONSTRUCTIVE LEGISLATION.

The recent publication of the "Summaries of Returns Deposited with the Treasury by Insurance Companies during the year ended 31st December 1935" made available the tenth issue of this most interesting annual publication required under our Insurance Act of 1923,¹⁾ thus enabling analyses and comparisons being made over a decade.

At the outset, however, it will be observed that these publications are not "reports" but mere summaries, without any comment whatsoever, of returns submitted to the Treasury. Further, it should be noted that the reports refer to returns *deposited* during a particular year, and not to returns covering that particular period, so that the reports on the whole rather refer to conditions prevailing during the *previous year* than to the year to which the publication refers. In the 1935 "Summaries" e.g. we find, in the case of all the insurance companies, that in 71 cases the returns reflected conditions prevailing on December 31st, 1934, in 11 cases even earlier in 1934, and only 4 cases actually referred to 1935 (one to March and three to June 1935). Of the 16 South African Companies the returns of 12 referred to 1934 and only 4 to 1935. *Unless otherwise stated, therefore, the figures obtained from the "Summaries" of any particular year will be referred to as those of the preceding year in this article.*

A DECADE OF GROWTH.

The tremendous economic importance of insurance companies and their recent growth is brought out by the following figures for those operating in this country:²⁾

1) The ten issues are :—

U.G. No. 23, 1936	U.G. No. 19, 1935;
U.G. No. 32, 1934;	U.G. No. 25, 1933;
U.G. No. 23, 1932;	U.G. No. 22, 1931;
U.G. No. 28, 1930;	U.G. No. 20, 1929;
Summaries for 1927 (Pretoria, 1928) (No number);	
U.G. No. 26, 1927.	

2) Unfortunately the first publication of "Summaries" did not segregate South African and Foreign Companies, so that in many of the tables to follow no such figures can be given for 1925. Similarly none of the "Summaries" segregate assets of life and other companies, so that the total asset figures which follow are those of all types of companies, of which amounts, however, the life companies hold the largest proportion.

ALL ASSETS.

Year.	S.A. Companies. (£1,000).	Foreign Companies. (£1,000).
1926	26,698	795,737
1927	28,892	898,948
1928	31,324	974,072
1929	34,003	1,040,356
1930	36,472	1,075,952
1931	38,224	1,110,707
1932	39,820	1,432,757
1933	41,751	1,472,900
1934	43,963	1,546,100
Increase:—		
Actual	17,265	750,363
Percentage	64.6	94.3

Their importance to this country appears from the following table:—

ASSETS IN THE UNION.

Year.	S.A. Companies. (£1,000)	Foreign Companies. (£1,000)
1926	25,833	9,518
1927	28,031	10,160
1928	30,469	10,993
1929	33,023	11,991
1930	35,393	13,261
1931	36,798	14,232
1932	38,037	15,141
1933	39,602	16,612
1934	41,477	17,878
Increase:—		
Actual	15,644	8,360
Percentage	60.5	87.8

The growing social significance of insurance companies is indicated by the following figures for the Union:—

POLICIES DISCONTINUED BY DEATH OR MATURITY.

Year.	S.A. Coys.		Foreign Coys.		All Coys.	
	No.	Amount. (£1,000).	No.	Amount (£1,000).	No.	Amount. (£1,000)
1925	—	—	—	—	3,656	1,510
1926	2,153	904	1,719	685	3,872	1,588
1927	2,218	890	1,745	705	3,963	1,595
1928	2,319	935	1,917	829	4,236	1,764
1929	2,491	1,037	2,094	922	4,585	1,959
1930	2,589	1,070	2,049	925	4,638	1,996
1931	2,970	1,177	2,317	1,127	5,287	2,304
1932	3,337	1,315	2,524	1,088	5,861	2,403
1933	3,234	1,278	2,488	1,074	5,723	2,352
1934	3,560	1,444	2,443	1,108	6,003	2,551
Increase:—						
Actual	1,407	540	724	423	2,347	1,041
Per-centage	65.4	59.8	42.1	61.7	64.3	69.0

The increasing appreciation by the public of the importance of life insurance can be observed from the figures of new policies issued in the Union:—

NEW POLICIES ISSUED DURING YEAR.

Year.	S.A. Coys.		Foreign Coys.		All Coys.	
	No.	Amount. (£1,000)	No.	Amount (£1,000)	No.	Amount. (£1,000)
1925	—	—	—	—	33,717	16,095
1926	26,446	12,325	9,209	4,888	35,655	17,213
1927	29,331	13,441	10,443	5,632	39,774	19,073
1928	28,470	13,789	12,064	6,522	40,534	20,311
1929	27,960	13,530	12,762	7,081	40,722	20,611
1930	30,054	14,630	13,380	7,271	43,434	21,902
1931	28,248	13,679	12,269	7,067	40,517	20,746
1932	29,361	14,149	11,466	6,503	40,827	20,652
1933	37,054	16,991	15,564	9,512	52,618	26,503
1934	40,198	18,343	20,772	12,622	60,970	30,965
Increase:—						
Actual	13,752	6,018	11,563	7,734	27,253	14,869
Per-centage	52.0	48.9	125.6	158.2	80.8	92.3

The above figures not only reflect the tremendous expansion of insurance business in the Union, but to a large extent also reflect prevailing economic conditions. An equally suggestive economic index is to be found in the following figures for the Union:—

POLICIES DISCONTINUED FOR CAUSES OTHER THAN DEATH OR MATURITY.

Year.	S.A. Coys.		Foreign Coys.		All Coys.	
	No.	Amount. (£1,000)	No.	Amount (£1,000)	No.	Amount. (£1,000)
1925	—	—	—	—	20,199	8,771
1926	15,096	6,863	6,084	2,701	21,180	9,564
1927	16,123	7,359	5,947	2,721	22,070	10,080
1928	17,321	8,000	5,683	2,680	23,004	10,680
1929	16,887	8,051	5,972	2,762	22,859	10,813
1930	20,161	10,053	7,551	3,379	27,712	13,431
1931	23,896	12,168	9,080	4,197	32,976	16,365
1932	27,723	14,021	10,062	5,074	37,785	19,095
1933	23,189	11,051	9,316	4,787	32,505	15,839
1934	20,823	9,546	9,700	5,320	30,523	14,866
Increase:—						
Actual	5,727	2,683	3,616	2,619	10,324	6,095
Per-centage	37.9	39.1	59.4	96.9	51.1	69.6

The net position of the companies is shown by the following figures for the Union :—

POLICIES EXISTING AT END OF YEAR.

Year.	S.A. Coys.		Foreign Coys.		All Coys.	
	No.	Amount. (£1,000)	No.	Amount (£1,000)	No.	Amount. (£1,000)
1925	—	—	—	—	250,087	110,780
1926	180,900	79,906	79,832	36,961	260,732	116,866
1927	191,885	85,081	82,582	39,170	274,467	124,251
1928	200,724	89,869	87,090	42,204	287,814	132,073
1929	209,317	94,312	91,650	45,484	300,967	139,796
1930	216,628	97,820	95,440	48,400	312,068	146,220
1931	219,015	98,748	96,272	49,965	315,287	148,713
1932	217,320	97,564	95,150	50,319	312,470	147,883
1933	227,953	102,214	98,912	53,895	326,865	156,109
1934	243,772	108,758	107,587	60,060	351,359	168,817
Increase:—						
Actual	62,872	28,852	27,755	23,099	101,272	58,037
Per-centage	34.8	36.1	34.8	62.5	40.5	52.4

Another picture of the above figures is obtained by reducing them to the average amount per policy. At the same time, it is interesting to note the relationship between the amounts insured with local as against foreign concerns :—

AVERAGE AMOUNT PER POLICY.

Year.	Discontinued by death etc.		New Policies		Discontinued for other Causes.		Policies Existing End of Year.	
	S.A.	Foreign	S.A.	Foreign	S.A.	Foreign	S.A.	Foreign
1926	£420	£398	£466	£530	£454	£444	£442	£463
1927	401	404	458	540	457	458	443	474
1928	403	433	484	541	462	472	448	485
1929	416	440	484	555	477	463	451	496
1930	413	452	487	543	498	448	452	507
1931	396	486	484	576	509	462	451	519
1932	394	431	482	567	506	504	449	529
1933	395	432	459	611	476	514	448	545
1934	406	453	456	608	458	548	446	558

Finally reference should be made to the premium income, that most important growing stream of compulsory or rather contractual savings of the community :—

PREMIUM INCOME.

Year.	S.A. Coys.		Foreign Coys.		All Coys.	
	In Union £1,000	Total £1,000	In Union £1,000	Total £1,000	In Union £1,000	Total £1,000
1925	—	—	—	—	3,858	60,195
1926	2,695	2,962	1,430	62,086	4,125	65,048
1927	2,856	3,133	1,502	67,973	4,359	71,106
1928	3,038	3,412	1,639	75,375	4,677	78,787
1929	3,184	3,665	1,777	82,055	4,960	85,720
1930	3,297	3,710	1,902	85,123	5,199	88,833
1931	3,299	3,708	1,969	86,417	5,268	90,125
1932	3,076	3,584	1,953	97,349	5,029	100,932
1933	3,323	3,751	2,045	92,544	5,368	96,294
1934	3,625	4,095	2,255	93,006	5,880	97,101
Increase:—						
Actual	930	1,133	825	30,920	2,022	36,907
Per-centage	34.5	38.2	57.7	49.8	52.4	61.4

THE RELATIVE POSITION OF SOUTH AFRICAN AND FOREIGN
COMPANIES IN THE UNION.

From the figures in the various tables given above, the relative importance of the respective groups in the life insurance field in this country can be gauged. The comparison is facilitated, however, by the following percentage table :—

PERCENTAGE OF TOTAL BUSINESS DONE BY S.A. COMPANIES.

Year.	Policies Discontinued		Premium Income	New Poli- cies Issued		Policies ex- isting at end of year			
	By death etc.	By other Causes		No.	Amt.	No.	Amt.		
1926	55.6	56.9	71.3	71.7	65.3	74.2	71.6	69.4	68.3
1927	56.0	55.8	73.0	73.1	65.5	73.7	70.5	69.9	68.5
1928	54.8	53.0	75.3	74.9	64.9	70.3	67.9	69.7	68.0
1929	54.3	52.9	73.9	74.5	64.2	68.7	65.6	69.5	67.4
1930	55.8	53.6	72.7	74.8	63.3	69.2	66.8	69.4	66.9
1931	56.2	51.1	72.5	74.3	62.3	69.7	65.9	69.5	66.4
1932	56.9	54.7	73.4	73.4	61.2	71.9	68.5	69.5	66.0
1933	56.5	54.3	71.3	69.7	61.9	73.7	64.1	69.7	65.5
1934	59.3	56.6	68.2	64.2	61.7	65.9	59.2	69.4	64.5

These figures may seem surprising in view of the fact that in 1926 there were only 9 local companies as against 25 foreign doing life insurance in the Union, while in 1934 the figures were 9 and 26 respectively. A mere comparison of the respective number of institutions, however, is no index of the business done by the respective groups. The principal activities of insurance companies must normally be in the country of domicile rather than in one of possibly many foreign countries where their interests are entrusted mainly to agents. This situation is borne out by the following premium income figures for the local companies and partially by those of the foreign concerns.

This fact must not be overlooked when comparing the percentage of total assets held in the Union. From time to time criticism has been levelled against the foreign companies doing business locally, for not holding a larger proportion of their assets in the Union. But it must not be overlooked that on the whole their South African business constitutes a relatively small portion of their total, and that they can only be expected to hold assets locally in proportion to their local liabilities. Unfortunately no figures are available showing the ratio of their Union liabilities to their total liabilities, but this is to some extent indicated by the figures of premium income. The respective figures are as follows :—

Year.	Percentage of Total Premium Income obtained in the Union.		Percentage of Total Assets held in the Union.	
	S.A. Coys.	Foreign Coys.	S.A. Coys.	Foreign Coys.
1926	91.0	2.3	96.7	1.2
1927	91.2	2.2	97.0	1.1
1928	89.0	2.2	97.3	1.1
1929	86.9	2.2	97.1	1.5
1930	88.9	2.2	97.1	1.2
1931	89.0	2.3	96.3	1.3
1932	85.8	2.0	95.5	1.1
1933	88.6	2.2	94.9	1.1
1934	88.5	2.4	94.3	1.2

The above comparison is but a superficial one in the absence of actuarial valuations of the respective liabilities, so that no scientific conclusion is warranted merely on the basis of the above figures. It might be pointed out, however, that if on the grounds of the above figures, the foreign companies are condemned on account of their small total investments in the Union, then the South African Companies deserve similar condemnation from the other territories in which they happen to be "foreign."

THE NATURE OF THE ASSETS.

It is of interest to compare the diversification of assets by the two groups of companies and also, especially in the case of the foreign companies, to compare the distribution of all their assets with those held in the Union. We consider in the first instance, the distribution between liquid and other assets:—

Year.	All Assets (£ millions)				Assets in Union (£ millions).			
	S.A. Coys.		Foreign Coys.		S.A. Coys.		Foreign Coys.	
	Liquid	Other	Liquid	Other	Liquid	Other	Liquid	Other
1926	12.4	14.3	579.0	216.7	11.8	14.0	4.5	5.1
1927	12.7	16.2	652.4	246.6	12.2	15.8	4.6	5.5
1928	12.7	18.6	698.8	275.3	12.4	18.1	4.9	6.1
1929	12.5	21.5	733.3	306.7	12.2	20.9	4.6	7.4
1930	12.9	23.5	750.7	325.3	12.6	22.8	4.7	8.6
1931	13.0	25.2	771.5	339.3	12.4	24.4	5.2	9.1
1932	14.0	25.8	997.1	435.6	13.1	25.0	5.7	9.4
1933	16.1	25.6	1,057.4	415.5	14.8	24.8	6.9	9.7
1934	18.3	25.6	1,132.0	414.1	16.7	24.8	7.6	10.3
Increase:—								
Actual	5.9	11.3	553	197.4	4.9	10.8	3.1	5.2
Per-centage	47.6	79.0	95.5	91.1	41.6	77.2	68.9	101.9

A better picture of this distribution is obtained from the following percentage table :—

PERCENTAGE DISTRIBUTION OF ASSETS.

Year.	Liquid Assets.				Other Assets.			
	S.A. Coys.		Foreign Coys.		S.A. Coys.		Foreign Coys.	
	All	Union	All	Union	All	Union	All	Union
1926	46.3	45.8	72.8	46.8	53.7	54.2	27.2	53.2
1927	43.8	43.6	72.6	45.6	56.2	56.4	27.4	54.3
1928	40.6	40.6	71.7	44.3	59.5	59.4	28.3	55.7
1929	36.7	36.8	70.5	38.2	63.3	63.2	29.5	61.8
1930	35.5	35.6	69.8	35.2	64.5	64.5	30.2	64.8
1931	34.1	33.6	69.5	36.3	65.9	66.4	30.5	63.7
1932	35.2	34.4	69.6	37.7	64.8	65.9	30.4	62.3
1933	38.6	37.3	71.8	41.5	61.5	62.7	28.2	58.5
1934	41.7	40.2	73.2	42.3	58.3	59.8	26.8	57.7
Average	39.2	38.6	71.3	40.9	60.8	61.4	28.7	59.1

Under *Liquid Assets* are included :

1. *Cash and deposits* i.e. cash on deposit, in hand and on current account;
2. *Agents Balances* i.e. Agents' balances, outstanding premiums and outstanding interest and dividends;
3. *Government Securities* i.e. (a) Union, (b) British, (c) Indian and Colonial, (d) Other Government Securities, (e) Municipal and other local Government Securities;
4. *Railway and Other Securities* i.e. (a) Railway and other debentures and debenture stocks, (b) Railway and other preference and guaranteed shares, (c) Railway and other ordinary shares.

Though one would expect a large measure of uniformity of policy as regards cash and deposits, and agents' balances, the following percentage figures indicate an appreciable difference in practice :—

PERCENTAGE OF TOTAL ASSETS IN CASH AND DEPOSITS (C & D)
AND IN AGENTS BALANCES (AB).

Year.	S.A. Coys.				Foreign Coys.			
	All Assets.		In Union		All Assets.		In Union.	
	C & D	AB	C & D	AB	C & D	AB	C & D	AB
1926	2.3	4.6	1.3	4.4	2.5	5.5	3.5	5.5
1927	2.4	4.5	1.6	4.4	2.5	5.1	3.3	5.8
1928	1.4	4.5	1.2	4.3	2.6	5.1	3.6	6.0
1929	1.5	4.3	1.3	4.1	2.4	5.0	3.4	5.9
1930	2.4	4.4	2.2	4.2	2.5	4.9	3.5	6.5
1931	1.8	4.5	1.6	4.3	2.5	4.9	3.4	6.4
1932	3.3	4.2	2.6	4.1	2.7	4.1	2.7	6.0
1933	4.8	4.0	3.9	3.9	2.8	3.8	4.9	5.4
1934	3.2	4.1	3.0	4.0	3.1	3.6	4.3	5.1
Average	2.6	4.3	2.1	4.2	2.6	4.7	3.6	5.8

Even more divergent are the figures for Government and private securities:—

PERCENTAGE INVESTMENT IN GOVERNMENT SECURITIES.

Year.	S.A. Coys.		Foreign Coys.	
	All Assets.	In Union.	All Assets.	In Union.
1926	35.5	36.0	32.7	34.7
1927	34.8	35.4	32.4	33.9
1928	32.7	33.1	29.9	32.4
1929	28.4	28.9	27.4	26.7
1930	26.5	26.9	26.6	23.6
1931	25.7	25.5	26.8	18.2
1932	25.7	25.7	29.7	20.7
1933	27.3	26.8	32.6	23.1
1934	30.6	29.4	33.9	22.6
Average	29.7	29.7	30.2	26.2

PERCENTAGE INVESTMENT IN RAILWAY AND OTHER SECURITIES.

Year.	S.A. Coys.		Foreign Coys.	
	All.	In Union.	All.	In Union.
1926	3.9	4.1	32.1	3.1
1927	2.1	2.2	32.6	2.8
1928	1.9	2.0	34.1	2.3
1929	2.5	2.5	35.8	2.2
1930	2.2	2.3	35.8	1.6
1931	2.1	2.2	35.2	8.3
1932	2.0	2.1	33.1	8.4
1933	2.6	2.7	32.6	8.1
1934	3.8	3.8	32.5	10.4
Average	2.6	2.6	33.8	5.2

The relatively uniform investment in government securities is significant and should be kept in mind when we deal with the principal local companies. The great divergence in railway and other securities must be ascribed to the absence of private railway securities in this country and the greater investment opportunities abroad, contrasted with the local predominance of mining securities which by many are still considered to be of a speculative nature and undesirable as a trustee or quasi trustee investment such as insurance assets are in fact. It is this factor and this figure which are responsible for the divergence in the percentage in liquid assets between the two groups of companies.

Under "Other Assets" i.e. Non-liquid have been included:—

1. *Loans on Policies* i.e. loans on Company's Policies;
2. *Loans to Municipalities* i.e. loans to municipal and other public bodies;
3. *Landed Property* i.e. house and landed property;
4. *Mortgages*;
5. *Other Items* i.e. (a) loans on personal security, (b) other investments, (c) establishment expenses and (d) other assets.

In the case of *loans on policies* one would also have expected a certain amount of uniformity of practice, but such does not happen to be the case. At the same time, we here have a figure which also to some extent is an economic index, loans increasing with bad times and decreasing with better times:—

PERCENTAGE OF TOTAL ASSETS IN LOANS ON POLICIES.

Year.	S.A. Coys.		Foreign Coys.	
	All Assets.	In Union.	All Assets.	In Union.
1926	13.9	13.5	6.9	22.7
1927	13.7	13.3	7.1	22.1
1928	14.1	13.4	7.5	21.3
1929	14.8	13.8	8.5	20.8
1930	15.4	14.5	8.6	20.8
1931	17.0	16.2	9.3	21.3
1932	16.8	16.1	8.2	22.4
1933	15.4	15.0	7.5	20.5
1934	15.0	14.6	6.8	18.2
Average	15.1	14.5	7.8	21.1

The divergence in the figures for foreign companies is phenomenal, both figures being entirely out of line with those of South African companies. The considerably lower figure for "All Assets" may be due to more frugal habits of policy holders elsewhere or different methods of personal finance. The higher figure for "Assets in the Union" may be due to local competitive considerations. Loans on policies are at all times looked upon as very safe by the companies and, especially at times like the present with low investment returns, as very profitable propositions. They are accordingly never discouraged, and since no questions are asked as to the purpose of such loans, they are particularly popular, especially with those who are anxious to avail themselves of the frequent speculative opportunities offered in this country.

The position in regard to *loans to Municipalities* is as follows:

PERCENTAGE OF LOANS TO MUNICIPALITIES.

Year.	S.A. Coys.		Foreign Coys.	
	All Assets.	In Union.	All Assets.	In Union.
1926	8.4	8.6	0.9	—
1927	8.5	8.7	1.1	—
1928	9.4	9.6	1.1	—
1929	10.1	10.4	1.1	—
1930	10.0	10.2	1.0	—
1931	10.4	10.8	0.9	—
1932	10.4	10.8	1.3	—
1933	10.4	10.8	1.3	—
1934	10.1	10.6	1.3	—
Average	9.7	10.1	1.1	0

In this instance the divergence between the figures is no doubt due to the fact that direct loans to municipalities are the exception abroad, the rule being the flotation of loans and the issue of negotiable securities. The absence of any such advances in the Union may be due to prejudice against such loans and the fact that usually such direct loans are granted only to the smaller municipalities, in which the foreign companies would probably not be interested.

The *landed property* figure does not represent investment in office space for the companies' use only, but the expenditure of a portion of the companies' funds on buildings as an investment:—

PERCENTAGE INVESTMENT IN LANDED PROPERTY.

Year.	S.A. Coys.		Foreign Coys.	
	All Assets.	In Union.	All Assets.	In Union.
1926	3.9	3.9	4.2	13.0
1927	3.6	3.6	3.9	12.9
1928	3.4	3.3	4.0	13.0
1929	3.5	3.4	4.0	13.7
1930	3.6	3.5	4.2	13.3
1931	3.7	3.6	4.3	12.2
1932	4.3	4.2	4.4	13.0
1933	4.3	4.3	4.6	13.7
1934	4.5	4.5	4.9	12.7
Average	3.9	3.8	4.3	13.0

The large measure of uniformity is significant. The divergence in the figure for foreign companies for assets in the Union suggests either relative overinvestment in buildings in view of higher rentals and returns on buildings in this country, or else, if the amount is normal, it signifies that the total investments in the Union are less than they should be.

Investment in *mortgages* is another figure showing great variations in practice:—

PERCENTAGE INVESTMENT IN MORTGAGES.

Year.	All Assets.	In Union.	All Assets.	In Union.
1926	24.9	25.5	12.4	14.3
1927	27.7	28.1	12.5	15.4
1928	30.0	30.4	12.8	16.9
1929	32.3	33.0	13.1	22.2
1930	32.9	33.6	14.4	25.6
1931	32.2	33.2	13.7	25.3
1932	30.8	32.0	12.4	22.1
1933	29.4	30.8	11.2	19.9
1934	27.7	29.1	10.3	21.3
Average	29.8	30.6	12.5	20.3

The divergence here is no doubt due to the differences in investment opportunities in this country and elsewhere, already referred to in connection with the investment in railway and other securities. The lower "in the Union" figure for foreign companies is possibly due to the relatively heavy investment in landed property, for if we combine the two figures, we obtain the following close agreement:—

PERCENTAGE INVESTMENT IN LANDED PROPERTY AND IN MORTGAGES IN THE UNION.

Year.	S.A. Coys.	Foreign Coys.
1926	29.4	27.2
1927	31.7	28.2
1928	33.7	29.9
1929	36.3	35.9
1930	37.0	38.9
1931	36.7	37.4
1932	36.2	35.1
1933	35.0	32.6
1934	33.5	34.0
Average	34.4	33.4

Finally, we have the jumble figure for *Other Items* which is given for record purposes:—

PERCENTAGE IN OTHER ITEMS.

Year.	S.A. Coys.		Foreign Coys.	
	All Assets.	In Union.	All Assets.	In Union.
1926	2.7	2.7	2.9	3.3
1927	2.7	2.7	2.9	4.0
1928	2.6	2.6	2.8	4.5
1929	2.7	2.7	2.8	5.2
1930	2.7	2.7	2.7	5.1
1931	2.7	2.7	2.5	5.0
1932	2.4	2.4	4.1	4.8
1933	1.9	1.9	3.5	4.3
1934	1.1	1.2	3.4	5.4
Average	2.4	2.4	3.1	4.6

Return on Investments.—Having noted the investment policies of both local and foreign insurance companies, we now proceed to compare their respective earnings and yields. The return has been obtained by dividing the interest, dividends, etc. received, by the total amount of the life fund at the end of the respective year. But since the earnings are obtained in the course of a year, while the fund figure represents the position existing at the close of that year, the figures can only be considered as approximate. But since the calculations have been the same throughout, the figures should be roughly comparable:—

RETURN ON INVESTMENTS.

Year.	S.A. Coys.			Foreign Coys.		
	Earnings £1,000,000	Insurance Fund £1,000,000	Yield. %	Earnings £1,000,000	Insurance Fund £1,000,000	Yield %
1926	1.16	23.4	4.95	23.4	488.3	4.79
1927	1.30	25.5	5.09	25.4	527.5	4.81
1928	1.41	27.6	5.12	27.7	571.1	4.85
1929	1.54	30.0	5.14	30.1	612.2	4.91
1930	1.68	32.3	5.20	31.4	640.7	4.90
1931	1.77	33.4	5.30	31.3	665.7	4.70
1932	1.77	34.8	5.09	35.7	807.2	4.43
1933	1.82	36.6	4.97	34.8	825.0	4.17
1934	1.85	38.7	4.78	35.8	866.0	4.25
Increase:—						
Actual	0.69	15.3	—0.17	12.4	377.7	—0.54
Per- centage	59.5	65.4	—3.44	53.0	77.3	—11.26

While the return for both groups to some extent reflects prevailing economic conditions, it will be observed that the South African figures have consistently been higher than those of the foreign companies. The higher local return is no doubt due to the higher general level of interest rates prevailing in this country as contrasted with those prevailing in England and other overseas countries. Partly it is probably due to the heavier investment in mortgages, which means that greater liquidity has been sacrificed for a higher investment yield, though it is remarkable how little the foreign companies would appear to be sacrificing for the sake of a considerably higher degree of liquidity.

SOUTH AFRICAN COMPANIES COMPARED

Having compared the local and foreign companies in general, we now proceed to analyse the affairs of the four largest South African institutions whose relative and collective importance is indicated by the following figures for 1934:—

	Total Assets.	Assets in Union.
African Life Assurance Society, Ltd.	£6,950,948	£6,714,167
S.A. Mutual Life Assurance Society	26,037,544	24,747,474
Southern Life Association	6,436,713	5,625,759
S.A. Nasionale Lewens-Assuransie Maatskappy, Bepersk	1,608,366	1,599,457
Total	£41,033,571	£38,686,857
All 16 S.A. Companies	£43,962,960	£41,477,105

These Companies will be referred to as:

African Life	or	A.L.
S.A. Mutual	or	S.A.M.
Southern Life	or	S.L.
Sanlam	or	S.A.N.

and unless otherwise stated, the figures will be those for business done and assets held IN THE UNION.

The expansion in the affairs of these institutions is brought out by the following figures (in thousands):—

ASSETS IN THE UNION.

Year.	A.L.	S.A.M.	S.L.	S.A.N.	All S.A. Coys
1925	£3,267	£14,798	£3,566	£281	—
1926	3,628	15,902	3,824	368	£25,833
1927	4,092	17,136	4,110	475	28,031
1928	4,697	18,399	4,419	617	30,469
1929	5,237	19,760	4,759	772	33,023
1930	5,556	21,138	5,135	943	35,393
1931	5,887	21,877	5,312	1,109	36,798
1932	6,159	22,641	5,331	1,262	38,037
1933	6,411	23,630	5,464	1,394	39,602
1934	6,714	24,747	5,626	1,600	41,477
Increase:—					
Actual	3,447	9,949	2,060	1,319	15,644
Percentage	105.5	67.2	57.8	469.3	60.5

Their growth can further be gauged from the following (in thousands):—

PREMIUM INCOME.

Year.	A.L.		S.A.M.		S.L.		S.A.N.	
	Total	Union	Total	Union	Total	Union	Total	Union
1925	£608	554	1,415	1,343	470	395	121	121
1926	662	579	1,536	1,448	493	403	155	155
1927	684	592	1,636	1,528	496	426	178	178
1928	710	618	1,769	1,637	571	431	212	207
1929	733	631	1,864	1,706	675	468	241	233
1930	736	633	1,946	1,761	603	491	270	264
1931	719	619	1,954	1,762	607	502	284	277
1932	678	556	1,871	1,680	605	504	297	210
1933	659	539	2,029	1,818	607	524	321	313
1934	690	558	2,251	2,012	620	537	391	382
Increase:—								
Actual	82.1	4.6	836	669	150	142	270	261
Percentage	13.5	0.8	59.2	49.8	31.9	36.0	223	215.7

When this is reduced to a percentage, a better view is obtained of the relative amounts of business done in the Union and elsewhere:

PERCENTAGE OF TOTAL PREMIUM INCOME OBTAINED IN THE UNION.

Year.	All S.A. Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	91.1	94.9	84.1	100
1926	91.0	87.5	94.3	81.8	100
1927	91.2	84.6	93.4	85.8	100
1928	89.0	87.1	92.5	75.5	97.4
1929	86.9	86.1	91.5	69.2	96.6
1930	88.9	86.0	90.5	81.5	97.6
1931	89.0	86.2	90.2	82.6	97.7
1932	85.8	81.9	89.8	83.4	70.6
1933	88.6	81.8	89.6	86.4	97.3
1934	88.5	80.9	89.4	86.7	97.7

Finally, we have the following interesting figures giving earnings (interest, dividends, etc.), the total life fund and the approximate yield on the investments of the several companies:—

EARNINGS AND YIELD.

Year.	African Life.			S.A. Mutual.		
	Earnings £1,000	Fund £1,000	Yield %	Earnings £1,000	Fund £1,000	Yield %
1925	173	3,034	5.70	726	14,594	4.98
1926	175	3,209	5.45	760	15,663	4.85
1927	190	3,539	5.37	853	16,931	5.04
1928	214	3,901	5.48	919	18,159	5.06
1929	233	4,211	5.54	1,000	19,536	5.12
1930	255	4,635	5.50	1,081	20,834	5.19
1931	274	4,873	5.63	1,129	21,428	5.27
1932	285	5,017	5.69	1,098	22,179	4.95
1933	283	5,299	5.34	1,140	23,371	4.88
1934	293	5,655	5.18	1,164	24,661	4.72
Increase:—						
Actual	120	2,621	—0.60	438	10,067	—0.26
Per-centage.	69.3	86.4	—9.14	60.3	69.0	—5.23

EARNINGS AND YIELD (Continued)

Year.	Southern Life.			Sanlam.		
	Earnings £1,000	Fund. £1,000	Yield %	Earnings £1,000	Fund £1,000	Yield %
1925	177	3,612	4.89	11	266	4.15
1926	194	3,904	4.98	15	358	4.24
1927	216	4,212	5.13	20	462	4.41
1928	235	4,582	5.12	27	598	4.51
1929	253	5,051	5.01	34	754	4.58
1930	274	5,414	5.06	42	911	4.65
1931	292	5,547	5.27	52	1,068	4.82
1932	301	5,830	5.05	56	1,196	4.68
1933	304	6,043	5.04	62	1,331	4.68
1934	299	6,264	4.77	64	1,516	4.25
Increase:—						
Actual	122	2,652	-0.12	53	1,250	+0.10
Per-centage	69.0	73.5	-2.46	481.9	469.9	+2.14

INVESTMENT POLICIES COMPARED.

An analysis and classification of the assets of the four concerns reveals the following situation¹⁾ :—

PERCENTAGE OF LIQUID ASSETS.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	39.8	51.8	43.9	50.9
1926	45.8	29.1	51.2	45.3	39.4
1927	43.6	15.3	51.4	44.1	36.3
1928	40.6	14.8	47.9	41.1	35.0
1929	36.8	11.1	43.7	39.0	34.5
1930	35.6	12.8	41.6	37.0	32.2
1931	33.6	10.4	39.8	34.4	27.5
1932	34.4	9.7	41.6	31.8	26.7
1933	37.3	10.1	45.7	33.7	23.1
1934	40.2	10.8	48.8	36.9	32.6
Average	38.6	16.4	46.3	38.7	33.8

1) "All Coys." in the tables that follow will signify "All S.A. Coys."

Since the relative nature of percentages frequently obscures actual trends, the actual figures are given below (in thousands):—

AMOUNTS INVESTED IN LIQUID ASSETS.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	£1,301	£7,665	£1,564	£143
1926	£11,819	1,054	8,136	1,734	145
1927	12,208	627	8,803	1,812	172
1928	12,365	694	8,817	1,817	216
1929	12,156	580	8,632	1,858	266
1930	12,582	712	8,791	1,902	304
1931	12,366	609	8,702	1,829	305
1932	13,086	599	9,420	1,697	337
1933	14,763	645	10,807	1,841	321
1934	16,663	727	12,068	2,077	521
Increase (+)					
Decrease (-)					
Actual	+4,844	-574	+4,403	+513	+378
Percentage	+41.0	-44.1	+57.5	+32.8	+264.3

The outstanding figures are those of the African Life which not only show both a relative as well as an actual decline, but which are radically out of line with those of the other companies and the average Union figure.

Analysing the liquid assets we have in the first instance *cash and deposits*:—

PERCENTAGE OF TOTAL ASSETS IN CASH AND DEPOSITS

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	1.00	0.95	1.25	12.9
1926	1.3	0.51	0.75	1.10	9.0
1927	1.6	0.68	1.35	0.68	8.5
1928	1.2	2.35	0.02	0.32	11.5
1929	1.3	0.04	0.81	1.33	8.5
1930	2.2	2.30	1.45	1.25	7.8
1931	1.6	0.24	1.46	0.70	4.5
1932	2.6	0.15	2.67	0.18	5.7
1933	3.9	0.85	3.62	4.19	2.5
1934	3.0	1.94	1.91	1.46	9.2
Average	2.1	1.01	1.50	1.25	8.0

AMOUNT IN CASH AND DEPOSITS (£1,000).

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	32.3	141.0	44.4	36.2
1926	323	18.4	119.0	42.1	33.2
1927	453	27.9	232.1	27.9	40.4
1928	364	110.5	2.9	14.1	71.0
1929	429	2.3	160.0	63.4	65.8
1930	786	128.0	305.5	51.0	73.2
1931	592	14.0	253.4	37.0	50.0
1932	971	9.0	604.8	9.8	72.1
1933	1,560	54.2	856.6	229.1	34.9
1934	1,240	130.1	471.5	82.3	146.8

While it must be remembered that a statement merely represents a situation at a particular date, the figures nevertheless suggest that the African Life keeps no unnecessary cash balances.

A similar conclusion is suggested by the following figures for *agents' balances*:—

PERCENTAGE REPRESENTED BY AGENTS' BALANCES.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	5.7	3.7	5.1	17.9
1926	4.4	5.2	3.9	4.9	14.8
1927	4.4	4.8	3.8	4.8	13.2
1928	4.3	3.9	3.9	4.7	11.9
1929	4.1	3.4	3.8	4.3	11.1
1930	4.2	3.3	3.9	4.4	11.2
1931	4.3	3.1	4.2	4.5	10.3
1932	4.1	2.8	3.9	4.6	9.7
1933	3.9	2.7	3.4	5.5	9.6
1934	4.0	2.5	3.7	4.8	9.7
Average	4.2	3.7	3.8	4.8	12.0

We next come to *Government securities, and railway and other securities*:—

PERCENTAGE OF TOTAL ASSETS IN GOVERNMENT SECURITIES

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	1.05	46.8	37.0	20.1
1926	36.0	0.95	46.2	38.8	15.6
1927	35.4	0.84	45.9	38.1	14.5
1928	33.1	0.73	43.7	35.7	11.6
1929	28.9	0.66	37.6	33.0	14.9
1930	26.9	0.67	35.0	31.3	13.2
1931	25.5	0.51	33.3	28.8	12.7
1932	25.7	0.49	34.1	26.7	11.3
1933	26.8	0.47	36.6	23.6	11.0
1934	29.4	0.45	39.2	30.3	13.7
Average	29.7	0.68	39.8	32.3	13.9

AMOUNT INVESTED IN GOVERNMENT SECURITIES (£1,000).

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	34.4	6,933	1,319	56.4
1926	9,308	34.4	7,349	1,483	57.5
1927	9,922	34.4	7,862	1,566	69.0
1928	10,087	34.4	8,038	1,575	71.5
1929	9,538	34.4	7,431	1,572	114.7
1930	9,518	37.1	7,404	1,606	124.5
1931	9,383	30.2	7,293	1,531	140.9
1932	9,767	30.2	7,710	1,422	142.8
1933	10,610	30.2	8,655	1,292	152.9
1934	12,178	30.2	9,712	1,704	218.3
Increase (+)					
Decrease (—)					
Actual	+2,870	—4.2	+2,779	+385	+161.9
Per-centage	+30.8	—12.2	+40.1	+29.2	+287.1

PERCENTAGE INVESTMENT IN RAILWAY AND OTHER SECURITIES.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	32.0	0.35	0.54	—
1926	4.1	22.4	0.32	0.53	—
1927	2.2	9.0	0.30	0.50	—
1928	2.0	7.8	2.8	0.47	—
1929	2.5	7.0	1.4	0.44	—
1930	2.3	7.0	1.2	0.40	—
1931	2.2	6.6	1.1	0.39	—
1932	2.1	6.3	1.0	0.39	—
1933	2.7	6.0	2.1	0.38	—
1934	3.8	6.1	3.9	0.37	—
Average	2.6	11.0	1.4	0.44	0

AMOUNT INVESTED IN RAILWAY AND OTHER SECURITIES (£1,000).

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	1,046	51	19	—
1926	1,049	813	51	20	—
1927	602	366	51	21	—
1928	601	366	51	21	—
1929	831	366	282	21	—
1930	801	366	253	21	—
1931	809	386	243	21	—
1932	798	386	233	21	—
1933	1,059	386	495	21	—
1934	1,591	399	959	21	—

The above tables indicate a considerable divergence in policy. Reference has been made earlier to the generally lower figures for non-government securities held in this country, but the African Life stands out with its considerably higher percentage investment, while Sanlam prefers to hold none. Equally striking is the situation in connection with government securities in which African Life has invested little more than the minimum required by our Insurance Act to be deposited with the Treasury.¹⁾ Even combining the two items, divergencies are still revealed:—

1) The Treasury holds £30,000 deposited by African Life as security for:—			
African Life	—	life business	£10,000
African Life	—	industrial business	£10,000
Policy holders of Mutual Life of New York whose			
S.A. business has been taken over by the			
African Life			£10,000
			£30,000

PERCENTAGE INVESTMENT IN GOVERNMENT, RAILWAY AND IN
OTHER SECURITIES.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	33.1	47.2	37.5	20.1
1926	40.1	23.4	46.5	39.3	15.6
1927	37.5	8.8	46.2	38.6	14.5
1928	35.1	8.5	46.5	36.1	11.6
1929	31.4	7.7	39.0	33.5	14.9
1930	29.2	7.3	36.2	31.7	13.2
1931	27.7	7.1	34.4	29.2	12.7
1932	27.8	6.8	35.1	27.1	13.3
1933	29.5	6.5	38.7	24.0	11.0
1934	33.2	6.5	43.1	30.7	13.7
Average	32.4	11.6	41.3	32.6	13.9

Turning now to the *Other or Non-Liquid Assets*, we find a fair amount of uniformity in connection with *loans on policies*:—

PERCENTAGE IN LOANS ON POLICIES.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	18.6	15.3	11.6	5.2
1926	13.5	18.1	14.9	11.5	6.4
1927	13.3	17.5	14.4	12.1	7.3
1928	13.4	16.9	14.7	11.8	8.1
1929	13.8	16.9	15.2	11.9	8.9
1930	14.5	18.3	15.5	12.9	11.4
1931	16.2	19.2	17.8	13.7	13.5
1932	16.1	19.4	17.1	14.7	15.0
1933	15.0	17.8	15.5	15.2	15.3
1934	14.6	16.4	14.9	16.4	14.1
Average	14.5	17.9	15.5	13.2	10.5

A considerable divergence is, however, revealed by the figures of loans to Municipalities:—

PERCENTAGE IN LOANS TO MUNICIPALITIES.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	7.4	7.6	14.5	—
1926	8.6	7.9	8.8	14.4	—
1927	8.7	6.9	9.1	14.5	1.05
1928	9.6	5.5	10.5	16.8	0.94
1929	10.4	4.6	11.9	17.2	1.21
1930	10.2	1.6	12.2	18.4	0.90
1931	10.8	1.4	12.7	20.8	0.79
1932	10.8	1.2	12.6	21.9	0.69
1933	10.8	1.0	12.9	21.3	0.60
1934	10.6	0.76	12.9	19.3	2.13
Average	10.1	3.8	11.1	17.9	0.83

The changes in the actual amounts advanced to Municipalities were as follows:—

AMOUNTS ADVANCED TO MUNICIPALITIES (£1,000).

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	241	1,121	515	—
1926	2,228	286	1,391	551	—
1927	2,441	282	1,558	595	5.0
1928	2,945	257	1,941	742	5.8
1929	3,421	242	2,352	817	9.3
1930	3,627	88	2,587	943	8.5
1931	3,966	83	2,769	1,106	8.8
1932	4,103	77	2,853	1,165	8.7
1933	4,272	65	3,038	1,162	8.4
1934	4,388	51	3,204	1,086	34.0

The African Life is obviously divesting itself of all its loans to Municipalities. The temporary drop in the Sanlam figures is possibly due to their extensive recent building operations which the following figures indicate:—

PERCENTAGE HELD IN LANDED PROPERTY.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	3.8	2.4	9.0	6.3
1926	3.9	3.4	2.4	8.5	4.8
1927	3.6	3.0	2.3	7.9	3.7
1928	3.3	2.6	2.1	7.3	2.7
1929	3.4	2.3	2.3	7.9	2.2
1930	3.5	2.2	2.4	7.6	5.3
1931	3.6	2.0	2.4	7.5	6.8
1932	4.2	2.0	3.2	8.1	11.4
1933	4.3	2.0	3.1	8.0	13.8
1934	4.5	1.9	3.4	8.7	12.1
Average	3.8	2.5	2.6	8.0	6.9

Before dealing with the mortgage figures, we record those for the remaining items:—

PERCENTAGE IN "OTHER ITEMS".

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	3.7	0.66	3.0	14.3
1926	2.7	3.3	0.64	3.3	12.3
1927	2.7	2.8	0.76	3.6	9.6
1928	2.6	2.4	8.25	3.8	7.5
1929	2.7	2.1	0.80	4.0	6.4
1930	2.7	1.9	0.90	4.0	5.7
1931	2.7	1.6	1.18	4.0	4.8
1932	2.4	1.5	1.00	4.3	4.3
1933	1.9	1.3	0.19	3.4	8.1
1934	1.2	1.3	0.16	0.9	1.9
Average	2.4	2.2	1.45	3.4	7.5

Finally we have the following figures for *investments in mortgages*:—

PERCENTAGE INVESTMENT IN MORTGAGES.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	26.7	22.3	18.1	23.3
1926	25.5	38.3	22.2	17.0	37.2
1927	28.1	54.5	22.1	17.9	42.1
1928	30.4	57.9	23.9	19.2	45.7
1929	33.0	63.1	26.1	20.0	46.8
1930	33.6	63.2	27.4	20.1	44.6
1931	33.2	65.4	26.2	19.7	46.7
1932	32.0	66.2	24.5	19.2	41.9
1933	30.8	67.9	22.6	18.5	39.2
1934	29.1	68.9	19.8	17.7	37.2
Average	30.6	57.2	23.7	18.8	40.5

AMOUNT INVESTED IN MORTGAGES (£1,000).

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	874	3,296	646	65
1926	6,579	1,391	3,523	651	137
1927	7,889	2,230	3,790	737	200
1928	9,261	2,721	4,396	850	282
1929	10,878	3,303	5,165	953	361
1930	11,885	3,512	5,795	1,032	420
1931	12,208	3,849	5,732	1,045	517
1932	12,171	4,077	5,543	1,024	529
1933	12,887	4,352	5,333	1,009	546
1934	12,049	4,623	4,899	997	595
Increase Actual	5,470	3,749	1,603	351	530
Per- centage	83.1	428.9	48.6	54.4	815.4

Elsewhere reference has been made to the relative predominance of mortgages amongst the assets of South African companies as contrasted with the foreign companies, no doubt on account of different financing methods in this country and also less developed investment opportunities. The fact remains, however, that mortgages are on the whole non-liquid and not easily realizable. The divergence in the policies of the local companies and more especially that of African Life, merit investigation. Its mortgage figures stand out conspicuously, especially their growth, and analyzing the various figures that have been given above, one is led to the conclusion that it is primarily interested in railway and other securities, and above all in mortgages. This contention is borne out by the following table:—

PERCENTAGE INVESTMENT IN RAILWAY AND OTHER SECURITIES AND IN MORTGAGES.

Year.	All Coys.	A.L.	S.A.M.	S.L.	S.A.N.
1925	—	58.8	22.6	18.7	23.3
1926	29.5	60.8	22.5	17.6	37.2
1927	30.3	63.5	22.4	18.4	42.1
1928	32.4	65.7	26.7	19.7	45.7
1929	35.5	70.1	27.6	20.5	46.8
1930	35.8	69.8	28.6	20.5	44.6
1931	35.4	71.9	27.3	20.1	46.7
1932	34.1	72.5	25.5	19.6	41.9
1933	33.4	73.9	24.7	18.8	39.2
1934	32.9	74.9	23.7	18.1	37.2
Average	33.3	68.2	25.2	19.2	40.5

Its interest in mortgages is further indicated by the following figures:—

AFRICAN LIFE — INCREASES (£1,000).

Year.	Total Assets.	Investment In Mortgages.
Between 1925 & 1926	361.6	517.3
„ 1926 & 1927	464.0	839.3
„ 1927 & 1928	604.7	490.9
„ 1928 & 1929	539.7	582.0
„ 1929 & 1930	319.3	209.0
„ 1930 & 1931	331.2	337.0
„ 1931 & 1932	272.1	227.8
„ 1932 & 1933	251.7	275.7
„ 1933 & 1934	303.2	270.3
Total	3,447.5	3,749.3

Total assets accordingly have increased by £3,447,000 during the ten year period during which mortgages increased by £3,749,000, i.e. by £302,000 more than the former. In other words, more than the total increase in available funds for investments has been absorbed by mortgages.

Our Insurance Act is hopelessly out of date. Unlike the situation in other countries and unlike similar legislation in our own country, e.g. in connection with building societies, the existing Act lays down no guiding investment principles, nor minimum standards. It does not demand detailed returns giving full particulars of all the assets and especially the investments, to enable the public to satisfy itself as to the application of *its* savings which have been entrusted to the insurance companies for investment and pooling of risks. With the exception of having to make a deposit with the Treasury, our insurance companies are virtually free to do whatever they please with the funds entrusted to them, subject only to their self-imposed limitations contained in their Articles of Association. They determine their own investment portfolio i.e. the distribution of assets, they determine their own margins e.g. in the case of mortgages, and they determine to what extent they will invest in undertakings in which their directors are directly or indirectly financially interested.

African Life Associations.

Upon investigation¹⁾ it has been discovered that the directors of the African Life are also directors of a number of other undertakings of which the following are some:—

AFRICAN LIFE INTERLOCKING DIRECTORATES

COMPANIES.	I. W. Schlesinger.	J. A. MacRae.	D. M. Burton.	W. F. White.	W. O. Bullock.	R. Bowman.	F. Napier.
1. African Life Assurance Society	X	X	X	X	X	X	X
2. African Amalgamated Advertising Contractors	X	X	X	X	X		
3. African Amusement Parks	X	X	X	X	X		
4. African Associated Newspapers	X	X	X	X	X		
5. African Broadcasting Co.	X	X	X	X	X		

¹⁾ S.A. Stock and Share Guide, May 1936 (Cape Town).
 S.A. Mining Year Book, Golden Jubilee Number 1936-7.
 Directory of Directors. 1936.
 African Manual—Mining, Industry, Agriculture. 1934-5; 1935-6:
 Mining Year Book. 1936 (Skinner, London).
 Records in the Companies Office, Pretoria.
 Stock Exchange Official Year Book, 1936
 Daily Press.

COMPANIES.

	I. W. Schlesinger.	J. A. MacRae.	D. M. Burton.	W. F. White.	W. O. Bullock.	R. Bowman.	F. Napier.
6. African Canning and Packing Corporation	X	X	X	X	X		
7. African Caterers	X	X	X	X	X		
8. African Consolidated Films	X	X	X	X	X		
9. African Consolidated Investments Corporation	X	X		X	X	X	
10. African Consolidated Theatres	X	X		X	X		
11. African Diamond Cutting Corporation	X	X	X	X	X		
12. African Films	X	X	X	X	X		
13. African Film Productions	X	X	X	X	X		
14. African Guarantee and Indemnity Co.	X	X	X		X		
15. African Irrigated Land Co.	X	X	X	X	X		
16. African Realty Trust	X	X		X	X		
17. African Talking Pictures	X	X	X	X	X		
18. African Theatres	X	X	X	X	X		
19. Algoa Shipping and Distributing Agency	X						
20. Anglo-International Securities Corporation	X	X ²⁾		X ²⁾	X ²⁾	X ²⁾	
21. Bazok, Ltd.	X				X ¹⁾		
22. British Consolidated Investments Corporation	X						
23. Broadcast House	X	X	X	X	X		
24. Cape (E.P.) Advertising Contractors	X	X	X	X	X		
25. Carlton Hotels	X	X	X	X ¹⁾	X ¹⁾		
26. Carlton House	X	X	X	X	X		
27. Cash and Carry	X	X			X ¹⁾		
28. Central Urban Investments (Pty.) Ltd.	X				X ¹⁾		
29. Colonial Banking & Trust Co.	X	X		X	X		
30. Colosseum Buildings	X	X	X	X	X		

1) Alternates.

2) of Local Board.

COMPANIES.

	I. W. Schlesinger.	J. A. MacRae.	D. M. Burton.	W. F. White.	W. O. Bullock.	R. Bowman.	F. Napier.
31. Conmil Properties (Pty.) Ltd.	X				X ¹⁾		
32. Dorsam Investments (Pty.) Ltd.	X				X ¹⁾		
33. Durban Theatres	X	X	X	X	X		
34. Empire Buildings	X	X	X	X	X		
35. Gilchrist and Powell	X	X	X	X	X		
36. Golden Valley Citrus Estates	X	X	X	X	X	X	
37. Golden Valley Fruits	X	X	X	X	X		
38. Goldreich Buildings	X	X	X	X	X		
39. Grand Parade Buildings Co.	X	X	X	X	X		
40. Inter-Continental Press and News Agency	X	X	X	X	X		
41. Investment Corporation of Africa	X	X			X		
42. Ismac Investments (Pty.) Ltd.	X				X ¹⁾		
43. J. H. & J. Investments	X	X	X	X	X		
44. Johannesburg Estate	X	X	X	X	X		
45. Letaba Estates	X	X	X	X	X		
46. Malieveld Mineral Concession			X				
47. Malieveld Mining Co.	X		X				
48. Metropolitan Poster Advertising Co		X		X	X		
49. M.L. Investments (Pty.) Ltd.	X				X ¹⁾		
50. Mocambique Insurance Co.		X					
51. Natal Advertising Contractors	X	X	X	X	X		
52. Natal Newspapers	X		X	X	X		
53. National Drug Co.	X	X	X	X	X		
54. Native Farmers Association of Africa	X		X ¹⁾	X	X		
55. O.K. Bazaars (1929)	X	X					
56. O.K. Emporium	X	X					
57. O.K. Emporium (Durban)	X	X			X ¹⁾		
58. O.K. Emporium (East London)	X	X					
59. Oudtshoorn Theatre	X	X	X	X	X		
60. Parok (Pty.) Ltd.	X						

1) Alternates.

COMPANIES.

	I. W. Schlesinger.	J. A. MacRae.	D. M. Burton.	W. F. White.	W. O. Bullock.	R. Bowman.	F. Napier.
66. Provincial Properties	X	X					
67. Publix	X	X	X	X	X		
61. Paramount Stores	X						
62. Polana Hotel	X	X	X	X	X		
63. Port Elizabeth Theatre and Opera House	X	X	X	X	X		
64. Pretoria Bill Posting Co.	X	X	X		X		
65. Pretoria Theatres	X	X	X	X	X		
68. Publix Estates	X	X	X	X	X		
69. Rand Safe Deposit Co.	X	X	X		X		
70. Regal Kinema	X	X	X	X	X		
71. Rhodeshall Court	X		X	X	X		
72. Savoy Theatres	X	X			X ¹⁾		
73. S.A. Advertising Contractors	X	X	X	X	X		
74. S.C. Investments (Pty.) Ltd.	X				X ¹⁾		
75. Southern Adservice	X	X	X	X	X		
76. Star Bill Posting and Advertising Co.	X	X	X	X	X		
77. Tanganyika Diamond and Gold Development Co.	X	X ¹⁾	X		X ¹⁾		
78. Tanganyika Forests and Lumber Co.	X	X	X	X	X		
79. Tivoli Co.	X	X			X ¹⁾		
80. Transvaal Advertising Contractors	X	X	X	X	X		
81. Transvaal Newspapers		X	X	X	X		
82. Union Canning Co.	X	X	X	X	X		
83. Whitehall Court	X	X					

In addition to the above we find that the African Amalgamated Advertising Contractors are also affiliated with:—

- 84. African Amalgamated Advertising Contractors (Europe) Ltd.
- 85. Bloemfontein Advertising Agency.
- 86. The Durban Signwriting and Ticketwriting Co.
- 87. Kimberley Bill Posting Co.
- 88. H. Willis Lynch & Co. of Rhodesia.
- 89. Rho-Anglo Adservice.

1) Alternates.

The African Realty Trust, in turn, is owner of the following townships:—

90. Killarney.
 91. Marlboro.
 92. Orange Grove.
 93. Parkhurst.
 94. Parkmore.
 95. Mountain View (Pretoria)
 96. Mount Pleasant (P.E.)
- Further it owns:—
97. Killarney Golf Club.
 98. The Transvaal Automobile Club.
 99. Zebediela Estates.

The African Consolidated Investments Corporation, besides the British Consolidated Investments Corporation Ltd., and the African Amalgamated Advertising Contractors (Europe) Ltd., also controls in London:—

100. British Amalgamated Theatres Ltd.
101. International Variety and Theatrical Agency Ltd., while in New York it controls: —
102. Anglo American Export Co., Inc.
103. General Talking Pictures Inc.
104. International Variety and Theatrical Agency Inc.

Finally, Tanganyika Diamonds, besides the Malieveld Mining Co., Ltd., controls:—

105. Kilima Mines, Ltd. and
106. Phoenix Reefs (Pty.) Ltd.

The credit needs of such a vast array of ventures cannot be small and can be partially gauged from the following incomplete table showing the bonded indebtedness only, i.e. the debt due in respect of all mortgages, of some of these companies, as reported to the Companies Office. (Most of these figures refer to the end of 1935 or early 1936, and where such debt, either partially or wholly, takes the form of debentures, same is indicated) :—

PAID-UP CAPITAL AND BONDED INDEBTEDNESS

Company.	Paid-up Capital.	Bonded Indebtedness.	
African Amalgamated Advertising	£109,000	£100,000 ¹⁾	(Debs)
African Canning	536,585	177,250	(Debs)
African Caterers	100,000	100,000 ¹⁾	(Debs)
African Consolidated Films	1,000	125,000	(Debs)
African Consolidated Investments	2,085,000	1,475,000	(Debs)
African Consolidated Theatres	1,000	331,167	(Debs)
African Film Productions	211,335	20,500	(Debs)
African Irrigated Lands	47,958	801,137	(Debs)
African Realty	193,840	1,172,316	(Debs)
African Theatres	500,000	741,313	(Debs)
Anglo Int. Securities	155,400	149,435	(Debs)

1) 6% Debentures secured by notarial bond over movable assets.

PAID-UP CAPITAL AND BONDED INDEBTEDNESS (Continued)

Company.	Paid-up Capital.	Bonded Indebtedness	
Broadcast House	7	67,674	
Carlton House	10,000	16,500	
Colosseum Buildings	150,000	140,000	(Debs)
Durban Theatres	60,000	35,625	
Empire Buildings	57,932	50,000	(Debs)
Golden Valley Citrus	318,740	922,978	(Debs)
Golden Valley Fruits	60,000	150,000	(Debs)
Goldreich Buildings	27,500	355,000	(Debs)
J. H. & J. Investments	600	38,000	
Letaba Estates	60,000	500,000	(Debs)
Native Farmers Association	70,000	20,850	
O.K. Emporium	100	150,000	
O.K. Emporium (Durban)	100	30,000	
O.K. Emporium (E.L.)	100	15,000	
Oudtshoorn Theatre	4,640	2,000	
P.E. Theatre	7,295	16,000	
Pretoria Theatres	60,000	72,292	
Publix Estates	100	12,378	
Regal Kinema	2,000	4,950	
Tanganyika Forests	300,000	119,964	(Debs.)
Tivoli Co.	9,100	77,500	
Union Canning	50,342	85,000	
Whitehall Court	37	55,402	
Total	£5,189,711	£8,130,231	

PERMUTATIONS AND COMBINATIONS.

The credit problems of these companies is considerably simplified, however, by reason of this network of interlocking directorates and furthermore as many of the companies are linked up in several holding companies and a super holding company, the African Consolidated Investments Corporation, Ltd. Some idea of this organization will be obtained from the following incomplete facts and figures¹⁾ concerning some of the companies only:—

African Amalgamated Advertising Contractors.

1. have £69,111 invested in subsidiary and associated companies; and
2. are affiliated with S.A. Advertising Contractors, Metropolitan Poster Advertising Co., Transvaal Advertising Contractors, Gilchrest and Powell, Pretoria Bill Posting Co., Natal Advertising Contractors, Durban Signwriting and Ticketwriting Co., Star Bill Posting and Advertising Co., Cape (Eastern Province) Advertising Contractors, H. Willis Lynch & Co.,

1) Mostly relating to the end of 1935 and early 1936, as reported to the Companies Office.

Bloemfontein Advertising Agency, Kimberley Bill Posting Co., Rho-Anglo-Adservice, African Amalgamated Advertising Contractors (Europe) Ltd.¹⁾

African Associated Newspapers have dealings with the Colonial Bank.

African Canning and Packing Corporation is controlled by African Consolidated Investments Corporation Ltd., which owns 368,769 of the company's 536,585 shares of £1 each²⁾.

African Caterers has a share investment of £155,000 in Associated Companies and has made a building advance of £30,000 to Carlton Hotel.

African Consolidated Films has a share and debenture investment of £8,653.

African Consolidated Investments, "the parent or holding company which Mr. Schlesinger personally controls,"³⁾ which was registered on March 10, 1927 "to acquire the undertakings and entire business of I. W. Schlesinger and Company."⁴⁾ holds:—

1. Stocks, shares, debentures and business contracts	£2,424,161
2. Stocks, shares, debentures and other investments	984,975
3. Loans to and debit balances of Associated Companies	569,526

Total	£3,978,662
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4. "The following is a list of the Companies in which the Corporation is now interested"⁵⁾:—

African Life; African Guarantee; Mocambique Insurance; Colonial Bank; African Cons. Theatres; Port Elizabeth Theatre and Opera House; Pretoria Theatres; Durban Theatres; African Cons. Films; African Film Productions; African Realty Trust; Goldreich Buildings; Empire Buildings; African Caterers; African Irrigated Lands; African Canning; Union Canning; Anglo-International Securities Corporation; Tanganyika Forests; Golden Valley Citrus; Golden Valley Fruits; Oudtshoorn Theatre; Johannesburg Estate; African Amalgamated Advertising Contractors; African Broadcasting; O.K. Bazaars; Rand Safe Deposit; Whitehall Court; Transvaal Automobile Club; Colosseum Buildings; Native Farmers Association; African Films; Zebediela Estates; Letaba Estates; African Theatres.

5. "Controlling amongst others, the following companies"⁶⁾:— African Life; African Guarantee; African Realty Trust; African Canning; African Amalgamated Advertising Contractors; African Theatres; African Irrigated Lands; African Film Productions; African Caterers; Golden Valley Citrus Estates; Golden Valley Fruits; Colonial Bank; "and many other Industrial Companies."

1) Stock Exchange Official Year Book 1936 p.814.

2) African Manual 1935-36 p.XXIV.

3) R.D.M. 2/12/1931.

4) African Manual pp. 80—81.

5) African Manual 1935-36 p.81.

6) Advertisement of African Cons. Investments in African Manual 1935-36 p.XIX.

6. "Directly controls" besides most of the above also the Anglo-International Securities Corporation Ltd., Tanganyika Forests "and owns (inter alia) stocks and shares in various other South African Companies."¹⁾

7. In London it controls the African Amalgamated Advertising Contractors (Europe) Ltd., British Consolidated Investments Corporation, Ltd. (registered April 5th 1927), British Amalgamated Theatres (which owns Daly's Theatre and of whose 125,000 shares of £1 each, 60,000 are owned by United Picture Theatres, Ltd.),²⁾ and International Variety and Theatrical Agency.

8. In New York it controls Anglo-American Export Co., General Talking Pictures and International Variety and Theatrical Agency.

African Diamond Cutting Corporation:—

4,000 £1 shares with 10/- paid up are held by Investment Corporation of Africa.

African Film Productions:—

51,554 £1 shares with 5/- paid up are held by African Consolidated Investments.

African Films holds shares and debentures in other companies amounting to £148,859.

African Guarantee has: 1) a subsidiary in the Mocambique Insurance Co., Ltd. and 2) has granted loans to Broadcast House, Ltd., Publix Estates, Ltd.; African Canning and Packing Corporation.

African Irrigated Lands owes Anglo-International Securities £99,854 secured by first mortgage.

African Life which is controlled by African Consolidated Investments, has a paid up capital of £25,000. "Articles limit the dividend to 12% p.a. (i.e. £3,000) which is regularly paid."³⁾ It holds £385,475 in shares in other companies and has granted loans to Publix Estates, J. H. & J. Investments, African Theatres, Pretoria Theatres, Union Canning Co., African Canning and Packing Corporation, Golden Valley Citrus Estates, P.E. Theatre and Opera House Co. and Durban Theatres.

African Realty Trust, "Owners and Developers of Townships and Plantations," 1) is controlled by African Consolidated Investments which holds 98,900 of its £1 shares with 8/- paid up, 2) It is the owner of the following freehold townships: Killarney, Orange Grove, Parkhurst, Parkmore, Marlboro (Pretoria), Mountain View (Pretoria), Mount Pleasant (P.E.); and 3) Has a large interest in the Zebediela Estates amounting to £1,004,907; 4) It owns the Transvaal Automobile Club and Killarney Golf Club.

1) The Stock Exchange Official Year Book 1936 p. 2064.

2) Stock Exchange Official Year Book 1936 p.953.

3) Stock Exchange Official Year Book 1936 p.2441.

African Theatres is 1) controlled by African Consolidated Investments Corporation, Ltd.

2) Of its capital of £500,000 consisting of 490,000 ordinary and 10,000 founders' shares, 265,496 and 8,400 respectively are owned by the controlling corporation.¹⁾

3) It has a share and debenture investment of £385,768 and 4) has guaranteed contracts to the amount of £190,000.

5) "Its allied, interlocking or subsidiary companies are as follows"²⁾:— African Amusements Parks Ltd., African Films Productions, Ltd., African Talking Pictures Ltd., Durban Theatre, Ltd. (Princes), Empire Buildings, Ltd., Goldreich Buildings, Ltd. (His Majesty's Theatre, Johannesburg), Johannesburg Estate Co., Ltd. (Palladium Theatre), Oudtshoorn Theatre Co., Ltd., P.E. Theatre and Opera House Co., Ltd., Pretoria Theatre, Ltd., and African Consolidated Investments Corporation Ltd. "the parent or holding company which Mr. Schlesinger personally controls."

6) It has a subsidiary, Union Theatres (Pty.) Ltd.

Anglo-International Securities Corporation, Ltd., is controlled by the African Consolidated Investments. Its capital is £175,000 of which £155,400 has been called up, consisting of 174,500 ordinary £1 shares (150,000 fully paid and 24,500 with 4s. paid) and 10,000 deferred shares of 1s. fully paid, "all owned by controlling company."³⁾ The company guarantees the interest on the 7½ per cent first mortgage debenture stock of Tanganyika Forests, and has granted loans to African Irrigated Lands.

Broadcast House 1) had loans from Colonial Bank and 2) now has one from African Guarantee.

Colonial Banking and Trust Company (established 1910) 1) is controlled by African Consolidated Investments Corporation Ltd. which owns 19,475 of the Bank's 19,975 ordinary £1 shares and the entire 25 founders' shares of £1 each.

2) It holds share investments amounting to £128,146 and

3) has or had connections with Broadcast House, African Associated Newspapers, Native Farmers Association, Johannesburg Estate Co., Tanganyika Forests.

Empire Buildings has connections with Investment Corporation of Africa and Colonial Bank.

Golden Valley Citrus Estates is "directly controlled" by African Consolidated Investments, which holds 255,155 of its 268,740 ordinary £1 shares and all the 50,000 preference £1 shares. It holds 24,000 out of 25,000 deferred ordinary £1 shares in Golden Valley Fruits.

Investment Corporation of Africa has connections with Empire Buildings, Johannesburg Estates Co., the African Diamond Cutting Corporation and Native Farmers' Association.

1) Stock Exchange Official Year Book 1936 p 815.

2) Rand Daily Mail 2/12/1931.

3) Stock Exchange Official Year Book 1936 p.2075.

Johannesburg Estate Co. holds 1) 11,000 2/- shares (the entire capital) of the Rand Safe Deposit; 2) It has a current account with Investment Corporation of Africa and 3) a fixed deposit with Colonial Bank.

Malieveld Mining Co., is controlled by Tanganyika Diamond and Gold Development Co.

Mocambique Insurance Co. is a subsidiary of the African Guarantee.

Natal Newspapers:—Allottee of the entire capital of 15,000 £1 shares was African Consolidated Investments.

O.K. Bazaars have guaranteed loans to subsidiaries amounting to £145,000, £74,250 and £1,485.

Provincial Properties:—£98 of its £100 share capital is held by O.K. Emporium.

Publix Estates has received loans from African Life and African Guarantee.

Rand Safe-Deposit Co. is owned by Johannesburg Estate Co. and has dealings with African Consolidated Investments and African Consolidated Theatres.

Savoy Theatres:—All its shares are held by O.K. Emporium.

Star Bill Posting and Advertising Co. holds the entire capital of 2,000 £1 shares in the Pretoria Bill Posting Co.

Tanganyika Diamond and Gold Development Co., which has an unextinguished underwriting commission of £75,000, "also owns.....practically all capital of Kilima Mines Ltd..... and direct controlling interest in Malieveld Mining Co., Ltd. In 1935 company acquired undertaking of New Rand Reefs Ltd., which was thereupon transferred to Phoenix Reefs (Proprietary) Ld., all capital of which is owned by this company."¹⁾

Tanganyika Forests and Lumber Co. is controlled by African Consolidated Investments Corporation, Ltd. It has a paid up capital of £300,000 in £1 shares fully paid "all privately owned (161,521 by controlling Corporation.)"²⁾

In 1924 it issued £150,000 of first mortgage debenture stock "by sale through Colonial Banking and Trust Co., Ltd.", the interest being guaranteed by the Anglo International Securities Corporation.

Tivoli Co. has connections with O.K. Emporium.

The credit problem of these companies is, therefore, considerably simplified since their directors are also directors of subsidiary companies, parent companies, holding companies and above all of at least four credit institutions, which in turn are, in the company's own words,³⁾ "controlled" by the real parent company, African Consolidated Investments. In this connection it is interesting to note that the list of companies which African Consolidated Investments

1) Stock Exchange Official Year Book 1936 p.2942.

2) Stock Exchange Official Year Book 1935. p. 1792.

3) See p. 37 above.

“controls” begins out of alphabetical order with African Life and African Guarantee and ends with the Colonial Bank, whilst the list of companies in which the Corporation is “interested”¹⁾ begins with African Life, African Guarantee, Mocambique Insurance and the Colonial Bank.

This emphasis upon these credit institutions is but natural, since in our modern credit economy long term and short term credit are indispensable, so that whosoever is in a position to “control” most important sources of credit whilst also connected with organizations constantly in need of such resources, is in a truly privileged position, in the absence of any legal restrictions upon the granting of loans to associated companies or anybody else. In the present instance it means that there is nothing to prevent this group of directors from coming in some 80 to 90 capacities to themselves in 3 or 4 other most vital capacities and applying for loans and advances for themselves in their other capacities.

While from the point of view of the companies, it is a very fortunate position, it is open to very serious doubt whether it is in the best interests of the community as a whole to allow any such developments to proceed unhampered, subject to no restraints or restrictions whatsoever. It must e.g. be most difficult for any group of directors common to a large number of companies at all times to act in the best interests of the shareholders of each of the companies with their different objects, in their dealings with one another. Any such situation is also definitely undesirable in principle, from the point of view of safety for savings, on account of the fact that in the case of insurance companies and savings banking, it is not only money paid for shares which is being utilised but primarily money paid in by the public in the form of premiums and deposits, of which the directors are in reality in the nature of trustees. In the present situation the same trustees are also the representatives of a vast number of business enterprises which require funds from time to time. The interests of borrower and lender cannot, however, be the same and when the trustee of the lender is at the same time the representative of the borrower, he finds himself personally in a most unenviable situation on account of the conflict of interests.

In the absence of any restrictions in our insurance or banking legislation upon the granting of loans and advances by financial institutions to any business venture in need of funds, a system of co-directorates is but a natural development. In the present instance these co-directors control funds amounting to £8,397,694²⁾ which, as far as the law is concerned, they are at liberty to advance and invest in any fashion they may deem fit,³⁾ subject only to their articles of association. While no suggestion is made that these

1) See p. 37 above.

2) African Guarantee	£440,498
African Life	6,950,948
Colonial Bank (Savings and Time Deposits only)	1,006,248
Total	£8,397,694

There is in addition the Mocambique Insurance Company which is but small, having total assets of only £10,968 in December, 1936. Mr. J. A. MacRae is Chairman and the General Manager of African Guarantee Mr. J. W. K. Schofield and Mr. J. W. Stewart are the other Directors.

3) With the exception of the insignificant deposit with the Treasury.

financial institutions are being conducted otherwise than in the best interests of the shareholders, depositors and insurers to the best of the directors' ability, the fact that the parent company advertises that its "controls" several of these institutions, can only mean that that fact is considered to be to the advantage of the parent company and its associated companies mentioned in the same advertisement.¹⁾

The following is an extract from the report of the Directors of the Colonial Bank for the year ended March 31, 1936, when it had a paid up capital of £20,000 and liabilities amounting to £1,152,040²⁾ :—

"The Directors, in continuance of their past conservative practice, have again transferred the whole of the credit of Profit and Loss Account to Reserve Account, which now stands at £55,439 2s. 5d." Similar statements have appeared in previous reports and no dividend would appear ever to have been paid.³⁾ The explanation of this unusual conduct on the part of a public company is possibly to be found in the fact that roughly 97.5 per cent of the ordinary and 100 per cent. of the founders' shares are held by the Consolidated Investments,⁴⁾ which Mr. Schlesinger personally controls.⁵⁾ All the directors of the Bank are also directors of Consolidated Investments, and they may consider a remuneration for directors' services plus loans from the Bank in connection with the Company's various interests, a sufficient return on the shares held in the Bank. In this connection the following figures of the Colonial Bank for the year ending March 31st are of interest⁶⁾ :—

Year.	Gross Profits.	Interest paid or Accrued.	Salaries & General Expenses.	Net Profits.	Net Return on Capital.	Capital.	Fixed & Savings Deposits.
	£	£	£	£	%	£	£
1931	40,716	15,664	18,865	976	4.88	20,000	348,769
1932	37,063	14,676	16,842	1,023	5.11	20,000	332,381
1933	40,190	13,872	19,989	868	4.34	20,000	337,604
1934	45,861	17,416	22,123	844	4.22	20,000	589,649
1935	66,624	27,715	29,912	1,175	5.88	20,000	774,808
1936	85,484	36,057	40,149	1,550	7.75	20,000	1,006,249

1) See p. 37 above.

2) Including Fixed Deposits £328,164
Time Deposits 678,084

£1,006,248

3) The Stock Exchange Official Year Book 1936, p. 2131 states: "No dividend yet on either class of shares," i.e. ordinary and founders.

4) Ibid p. 2131.

5) "the parent or holding company which I personally control." Statement by Mr. Schlesinger at annual meeting of African Theatres. R.D.M. 26/2/1930.

6) The items Rents, Depreciation and Income Tax are ignored.

Definite instances of associated companies being financed by the Bank as also by the insurance companies are to be found in various balance sheets, reports and returns filed with the Registrar of Companies and also in the records of the Registrars of Deeds. The name of the Colonial Bank is met with on several occasions, e.g. in the case of African Associated Newspapers, Broadcast House, Native Farmers' Association, Johannesburg Estate Co., and Tanganyika Forests. In the case of the African Associated Newspapers,¹⁾ e.g. the total liabilities were £1,018 of which £100 represented paid up capital and £865 a loan from the Colonial Bank, which the Auditor had to point out required the confirmation of the shareholders, as it was more than the Company's authorised capital.

Another case of financial assistance is Broadcast House, Ltd., which has a nominal capital of £100 but only £7 subscribed and paid up. On February 6, 1935, it reported its receipts to be £7 from shareholders and £49,711 from other sources (total £49,718), of which amount £49,132 was spent on the purchase of properties and shares, £453 on interest, £12 on a municipal deposit, £113 on sundry expenses, leaving a balance of £8.

The previous day (Feb. 5th) the directors had passed a resolution for the passing of a bond of £180,000 in favour of African Guarantee with which it has four directors in common²⁾. The bond was duly executed on Feb. 15th and provided for the payment of £50,000 on the execution of the deed and £130,000 as building operations progressed³⁾ interest at 6 per cent. being payable. But the statement of June 30th 1935 only shows a Mortgage Loan Account of £27,959, Sundry Creditors £1,300 and Colonial Banking and Trust Company £23,067, giving, with the £7 capital, a total liability of £52,333. Against this it held the following assets:—

Property Account	£43,718
Shares in Charomel (Pty.) Ltd.	5,850
Municipal Deposit	12
Preliminary Expenses	88
Sundry Debtors	71
Cash at Bankers	72
Profit and Loss	2,522
	<hr/>
	£52,333

1) On 31/12/1935.

2) which on Dec. 31, 1934, had total assets amounting to £440,498 and held £66,255 in mortgages.

3) The building was to cost not less than £130,000.

The last available return for December 31st 1935 shows the following:—

Liabilities.		Assets.	
Share Capital	£7	Property Account	£48,261
Mortgage Loan Account	67,674	Building Account	14,534
Sundry Creditors	39	Mun. Deposit	217
		Prel. Expenses	88
		Cash at Bankers	11
		Revenue and Expenditure	
		Account	4,608
	<hr/>		<hr/>
	£67,719		£67,719
	<hr/>		<hr/>

Incidentally it should be noted that when this transactions is finally completed the nature of the assets of the African Guarantee will have been radically affected by this loan. On December 31st 1935 its total mortgages amounted to £98,208 of which amount £67,374 (i.e. roughly 68 per cent.) was due by Broadcast House alone, leaving £30,834 in other mortgages. When the full £180,000 has been advanced, it will be observed that the mortgage item may, to the extent of 90 per cent. or more, represent one loan, to one party, on the security of one property.

Similarly Publix Estates, Ltd. in December 1935 had liabilities amounting to £3,347, consisting of £100 paid up capital, £3,010 mortgage bond and £236 to creditors. In the meantime bonds amounting to £5,500 and £5,000 have been passed in favour of African Life and £5,500 and £6,750 in favour of African Guarantee.

Another case is that of J. H. & J. Investments (Proprietary), Ltd. which has a paid up capital of £600 but has passed mortgage bonds for £21,500 and £16,500 respectively in favour of African Life. As this is a "private company" no statements are available to show the company's other liabilities and the nature of its activities.

Other instances of bonds passed by affiliated or associated companies in favour of African Life (A.L.) and African Guarantee (A.G.) are:—

Mortgagor.	Mortgagee.	Amount.	Ranking.
<i>At Johannesburg:</i>			
1. African Theatres	A.L.	£25,000	1st
2. " "	A.L.	30,000	1st
3. " "	A.L.	30,000	1st
			as an additional and collateral security to No. 2.
4. " "	A.L.	8,000	1st
5. " "	A.L.	12,000	1st
6. Native Farmers Association	A.L.	10,700	1st
<i>At Pretoria:</i>			
7. Union Canning Co.	A.L.	85,000	1st
8. Pretoria Theatres	A.L.	75,000	1st

At Cape Town:

9. African Canning & Packing	A.G.	4,500	1st
10. African Theatres	A.L.	74,575	1st
11. Golden Valley Citrus Estates	A.L.	20,000	1st
12. P.E. Theatre and Opera House Co.	A.L.	13,273 (bal.)) 1st Ranking Pari Passu
13. do.	A.L.	3,727 (bal.)	
14. African Theatres	A.L.	30,000	1st Collateral to bond registered at Joh'burg.
15. Golden Valley Citrus Estates	A.L.	300,000	Collateral to bond registered at Pietermaritzburg

At Pietermaritzburg:

16. Golden Valley Citrus Estates	A.L.	300,000	1st
17. Durban Theatres	A.L.	60,000	1st

According to the latest available information	
The African Guarantee held on 31/12/1935:	
Mortgages	£98,208
The African Life on 31/12/1935:	
Mortgages	4,695,725
Railway and Other Ordinary Shares	398,533
The Colonial Bank on 31/12/1936:	
Loans on Mortgages and other Advances	893,176
Share Investments	128,146
	£6,213,788 ¹⁾

What are these "Railway and Other Ordinary Shares" and the "Share Investments" amounting to £526,679 which are held on behalf of the policyholders and depositors? In the case of the former, £13,058 represents S.A. Reserve Bank Stock; but what of the balance? What we do know is that these companies are "controlled" by the parent company, the African Consolidated Investments, so that there is reason to assume that at least some of these share investments are in associated companies. But to what extent is such the case, and are some by any chance in the Consolidated Investments Corporation itself whose

1) The Mocambique Insurance Co. held £8,699 out of its total assets of £10,968 in mortgages on Dec. 31, 1936.

balance sheet the auditors have commented upon on several occasions?¹⁾

Similar queries suggest themselves in connection with the £5,000,000 figure for investments in mortgages. To what extent have these "controlled" financial institutions restricted themselves to mortgage loans to similarly "controlled" as well as the other associated and affiliated institutions and the parent company? Have the customary margins of protection of from 25 to 40 per cent been preserved in all instances in the interest of those on whose behalf such savings funds are being invested?²⁾

1) In. 1930: "No provision has been made in respect of losses of Associated Companies."

In 1931: "In our opinion, in view of the losses sustained by certain Associated Companies, adequate provision has not been made in respect of the amounts owing by such Companies, or in respect of depreciation of investments."

In 1932: "In view of the further substantial losses sustained by certain of the Associated Companies and of the conditions at present existing, we are of the opinion that the value of the Investments of the Corporation (including business contracts) and the Loans and Advances to Associated Companies is considerably less than the amount at which they appear in the Balance Sheet viz., £3,955,353, after taking the Investment Reserve Account into account."

In 1933: "In view of the further large losses }
1934 "In view of the further losses } sustained by several of the
1934 Associated Companies since our previous report, we are of the opinion
1935 that the value of the investments of the Corporation (including
1936 business contracts) and the Loans and Advances to Associated Companies (which include Interest and Management Fees credited to Profit and Loss Account but which may not be recovered in full) has further declined and is considerably less (after taking the Investment Reserve into account) than the amount at which they appear in the Balance Sheet, viz.":

March 31 — 1933	£3,929,467
March 31 — 1934	3,904,341
March 31 — 1935	3,948,150
March 31 — 1936	3,978,662

2) While the largest proportion of the bonded indebtedness of the associated companies is in the form of mortgage debentures, not one penny is given under "Railway and other Debentures and Debenture Stocks" in the official returns. Since "Railway Debentures" are usually unsecured, one wonders whether "and other Debentures" has similarly been interpreted as "certificate(s) of debt issued by a corporation or company, without mortgage or collateral security." (Hirst: The Stock Exchange p. 158), and whether mortgage debentures have accordingly been included under **Mortgages** in the absence of a specific heading?

Efforts to clear up this point have not met with success. Letters addressed to four of the associated companies, in terms of Section 92(2) of the Companies Act, asking to be informed of the total amount of their respective debentures registered in the name of African Guarantee and African Life respectively, brought forth one reply from African Consolidated Investments informing me that the debenture registers could be inspected at its office.

The response to a further communication addressed to one of the directors

These and many other questions would not suggest themselves had our legislature provided for the necessary full publicity in regard to all investments actually held, and for minimum standards and diversification, but now they remain unanswered, thanks to our antiquated banking and insurance legislation. The Banks Act of 1917 does indeed require a statement at the end of the quarterly returns as to the "Aggregate amount of loans to and liabilities of directors, auditors or officers of the bank and of any firms or partnerships in which they or any of them have any direct interest." It is a mere statement of fact without any statutory disapproval of utilising a bank's resources for the benefit of associated ventures. Yet even this requirement would appear to be capable of different interpretations.

The Colonial Bank, e.g. in terms of this provision regularly reports certain amounts, but on several occasions this "aggregate amount" has been less than the amount owed by one associated company alone. A case in point is the Native Farmers' Association of Africa which for years mentioned the Colonial Bank by name in its balance sheet and with which it had and has several directors in common. In 1934 and 1935, however, it only sets out "Overdraft at Bank" and as no particular Bank is mentioned, it can reasonably be assumed that it is still the Colonial Bank. The respective amounts given are as follows:—

Date.	Overdraft of Native Farmers' Association	Aggregate loans to Directors, etc.
30/9/1927	£1,818	£1,457
31/12/1932	1,273	804
31/12/1933	3,346	2,238
31/12/1934	5,973	2,876
31/12/1935	7,741	3,512

Similarly at the end of June 1935 when the Bank reported a total of £2,517, Broadcast House Ltd. alone, which had four directors in common with the Bank, reported to the Companies Office that it was indebted to the Bank to the amount of no less than £23,067. It would appear, therefore, that the words "direct interest" as used in the Act, are capable of more than one interpretation and consequently the provisions of the law do not result in any useful information being supplied to the public.

2) Continued.

inquiring whether the investments of African Life included mortgage debentures of its associated companies and if so under what heading they appeared in its balance sheet, was the reply: "I beg to hand you herewith the African Life Balance Sheet set out in accordance with the third (3rd) Schedule of the Insurance Act, properly drawn up so as to exhibit a true and correct view of the state of the Society's affairs as at 31st December, 1935." In addition I was invited to have my representative examine and take extracts from the London and New York debenture registers, and also at Johannesburg where the Assistant Secretary of African Consolidated Investments would be placed at his disposal. Unfortunately, however, I am unable to avail myself of the invitation, since one day spent at Johannesburg by my representative revealed that it would be a gigantic task.

In our Insurance Act not even this amount of information is demanded from insurance companies and if a bank or insurance company in its reports publishes statements which clearly indicate that depositors' or insureds' monies are being utilized in hazardous investments, not even the Treasury has the right to demand any supplemental information or to take any statutory steps to safeguard the public and especially that portion whose savings are at stake.

INSURANCE ACT AMENDMENT BILL.

As this is being written, Parliament is considering a Bill to amend our Insurance Act of 1923.¹⁾ This Bill, however, concerns itself exclusively with burial societies which are henceforth to be considered as industrial insurance companies and will accordingly have to be registered under the Act. As a concession to these burial societies, which in many instances are relatively small, the statutory deposit required from companies carrying on industrial insurance business is to be reduced from £10,000 to £5,000. In addition, companies whose net liability under its policies of insurance on June 30, 1937, is less than £5,000, are to be allowed to lodge this deposit in instalments between 1938 and 1942.

While it is undoubtedly a vital step forward which is being taken to bring these institutions under legislative control, in view of their importance especially to a large portion of the less privileged section of the community, both European and non European, whose truly *hard earned* savings are at stake, and also in view of the many frauds one has heard of time and time again in connection with such institutions, it is nevertheless to be regretted that the essential character of the Act remains unaltered. A deposit is required, statements have to be lodged and an attempt is made to safeguard the interests of policyholders from the legal stand point, but no attempt whatsoever is made to insure that the companies will as far as is humanly possible, at all times be in a position to carry out their obligations towards their policyholders. An insurance contract is a mere piece of paper unless not only the actuarially determined funds are being held, but also unless such funds have been wisely and safely invested. On this most important aspect of insurance our Act is entirely silent. One of the Schedules²⁾ to the Act prescribes the form of the statements to be lodged by Companies. But no indication is given as to any desirable distribution of funds between the various types of assets. Moreover, "Railway and other Debentures and Debenture Stocks", "Railway and other Preference and Guaranteed Shares" and especially "Railway and other ordinary shares" are such wide categories as to be absolutely useless as guides to those seeking legislative guidance. Similarly the item "Mortgages" signifies nothing in the absence of any provisions as to first and second mortgages or even notarial bonds, but especially as regards minimum safety margins that are to be maintained in granting loans on mortgage.

1) The Bill was read a first time on Feb. 4th and was to have been read a second time on the 8th. On the 5th, however, the order was discharged and the Bill referred to a Select Committee.

2) Third Schedule.

Above all there is no guidance or restriction on the question of investing the funds in ventures in which the directors are also interested either in the form of shares, debentures or mortgages. It is the duty of our legislature to express itself on these points for the guidance of those entrusted with the administration and investment of the funds, and also for the protection of those whose funds are actually being invested.

Our Act is modelled largely on the British Insurance Act of 1909 on which *The London Economist* has the following observations to make¹⁾: "It is made up of 38 sections and eight schedules,²⁾ and the net effect of it is that any insurance company which started business after the Act came into force must deposit with the Government a sum of £20,000 as security for its operations. In this demand for a deposit the Act followed the precedent of the nineteenth century life insurance legislation and at the same time established a precedent for subsequent Acts; and so by what must be regarded as an unfortunate chance set up a model that legislators both in Great Britain and abroad have followed ever since. The system of deposits with a Government office was standardised as the normal protection for policyholders, but the deposit was not brought into relation to the risks run. For £20,000 of deposit you could have a premium income of £50,000 or £5,000,000, and once the deposit was made it was beyond the power of the Board of Trade to call for more, no matter how quickly your liabilities grew. It cannot be said that the Act was either scientific in design or very effective in practice.

"The essential flaw of the 1909 Act was repeated in 1930.³⁾ In its old childish way Parliament said to the insurance companies, 'We do not care how big a business you do; it is nothing to us whether you accept your liability in millions or in thousands; it is a matter of indifference to us whether you are adding to your resources by successful management or dissipating them by reckless underwriting. Just leave with us £15,000 worth of deposit and you are an authorised insurer whether your liabilities are £x or £10,000x, whether your business is so small as to make the deposit a thing of real value in a liquidation or so large as to make it as helpful as a crumb in the hollow tooth of an elephant.' Is it very surprising that such legislation as this has produced a crop of six failures in five years?"

Commenting on one such failure *The Economist* declared⁴⁾ :— "What is the remedy for this gross scandal? It is simple. Recognize (1) that a deposit is useless unless it is adjusted to the size of the business done, and (2) that far more important than an immovable deposit are sound management and solvency as a going concern. Let the Board of Trade draw up a standard of solvency for motor-car insurers. and let the label 'authorised insurer' attach not to those companies who have left £15,000 at the Board of Trade, but to those who are certified year by year to be solvent according to the standards of the Board. That reform would put an end to the widespread distress that these failures cause."

1) April 27, 1935.

2) The Union Act has 59 Sections and ten Schedules.

3) when the Road Traffic Act was passed which also introduced compulsory third party insurance.

4) Feb. 9, 1935.

These remarks are equally applicable to this country and also largely to other types of insurance concerns. A fixed deposit is totally inadequate; sound management and solvency must be assured by prescribing desirable and sound investment policies; and above all the policy of relying on publicity only must be abandoned for that of direct government supervision similar to that in the case of our building societies. The present legal position existing in this country is too ridiculous for words. Statements have to be lodged with the Treasury and these are published without comment by the Treasury; and should the Treasury observe any suspicious or undesirable features which clash with the public interest, it is totally impotent and cannot even try to remedy matters or warn the public. Those who are sufficiently interested and intelligent are merely given public access to the statements and may withdraw from any company whose statements they do not like. But the less interested or intelligent section go on dealing with such concerns under a false sense of security, in the knowledge that there is an Insurance Act, that such concern is licenced, but above all in the implicit confidence that the representatives of the people will have seen to safeguarding the interests of the people.

The need for such constructive legislation is becoming more urgent now that the burial societies are also to be covered by legislation, many of which are small and run by directly interested funeral undertakers, many of whom will no doubt badly need constructive guiding investment principles and the removal of all possible temptations to employ such funds in their own businesses.

ADDENDUM.

The following names should be added to the list of associated companies appearing on pp. 31-35:—

- 107 Allied Drug Company, (Pty.), Ltd.
- 108 Beyer Peacock South Africa, (Pty.), Ltd.
- 109 Western Province Newspapers, Ltd.
- 110 Buffalo Buildings, Ltd.
- 111 Springs Palladium Buildings, Ltd.
- 112 Commonwealth Buildings, Ltd.
- 113 Buitengracht Buildings, Ltd.
- 114 Duke Fingard Inhalation (S.A.) Ltd.
- 115 Weltevreden Properties, (Pty.), Ltd.
- 116 Delagoa Bay Land Syndicate, Ltd.

Printed by
TRANSVAALSE PERS. BPK.,
Pretoria.

Printed by
TRANSSVAALSE PERS, BPK.,
Pretoria.



Collection Number: A1132

Collection Name: Patrick LEWIS Papers, 1949-1987

PUBLISHER:

Publisher: Historical Papers Research Archive, University of the Witwatersrand, Johannesburg, South Africa

Location: Johannesburg

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