

SUMMARY

Some considerations, on which Prof. Campagne, as appears from his article in the preceding number of the M.A.B., bases his preference for the constant-value-method over the margin-method, are discussed.

The former system determines on the bases of interest, mortality and costs laid down in the balance sheet, the discounted value of the future income resulting from the actual assurances and investments and considers the thus computed nett-capital as a standard of the power of resistance. The margin-method assumes that the consequence of valuing the company as a going concern should be that over against the continuously renewed stream of future expenses which the company has undertaken is put the stream of income, which it is going to enjoy in the form of premium and interest.

The variation in the width of these streams and consequently in their difference — the margin, which is used as a standard of the power of resistance — is determined by fluctuations in the rate of interest in mortality and in cost-level, which assert their influence via redemption and purchase of investments and removal and supply of assurances.

The margin-method tries to put a margin, which has been determined as objectively as possible, as a standard in the place of the nett-capital of the discounted-value-method, which has naturally been computed on a subjective basis.

Especially the former system is based on the supposition of business continuity and it is well suited to bring out the influence of the danger of adverse tendencies (downward course of the interest- and premium-level, rise of the cost-level and unfavourable course of the mortality).

Over against the proposition of the adherents of the discounted-value-method, that the latter should make it possible to determine in how far a company would be able to finance a calamity if that should occur (an acute, great loss) out of the existing portfolio, it is observed that one has to work with a somewhat fictitious nett-capital if the computed rate of interest deviates very much from the prevailing rate of interest and if the computed value of the assets differs considerably from their current value.

In the second place does the stricter judgement which the discounted-value-method seeks to apply by not considering the production and by confining itself to existing assurances and investments turn into its opposite when the premium-level for new assurances is lower than for the existing ones.

One of the important data for the power of resistance of a company as a going concern has then not been included in the calculation and too rosy a picture is drawn of the state of affairs.

It is true that the discounted-value-method seems to be able to avoid these drawbacks by keeping on the safe side in its calculations but in doing so it can no longer pretend to give accurate inside-information. In its publications a company can just as well obtain this safety by applying other systems.