

# CO-OPERATIVE INSURANCE



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## PREFACE

THE object of this book is to outline the theory and practice of co-operative and mutual insurance throughout the world. It is, as far as I know, the first attempt of this kind. Although co-operative insurance institutions were first established about seventy years ago, no general investigation of the subject has yet been undertaken or published. Being the first in the field, this study does not pretend to be all-embracing or to be free from omissions or errors of interpretation. It deals with thousands of co-operative and mutual insurance societies in thirty-five countries covering the insurance needs of millions of policy-holders. In view of the ramifications of the movement and the variety of scattered information published in dozens of languages there was a real need for an investigation into the general experience, principles and business methods of co-operative insurance institutions. This need was widely recognised by the active workers in the movement, and this book could not have been written had I not received the kind and helpful assistance of the management bodies of the co-operative insurance societies. I have received also great assistance and encouragement in the preparation of this study from the Horace Plunkett Foundation, from the International Co-operative Alliance and its Insurance Committee, from the Co-operative Section of the International Labour Office and from the International Institute for Co-operative Studies and its members. I take the opportunity of expressing to them my sincerest thanks.

This book is the outcome of three years' study made at the London School of Economics in 1933-36

and I am greatly indebted to Mr. G. L. Schwartz for his helpful and sympathetic supervision of it.

In the course of my investigations I have done my best to secure criticism and advice on various points. My acknowledgments for helpful criticism and valuable suggestions are due particularly to Mr. F. W. Bacon, Mr. D. Barber, Miss M. Digby, Mr. M. Dobb, Mr. J. P. Jones, Mr. H. Lemaire, Mr. J. Levene, Mr. L. T. Little, Mr. H. J. May, Mr. T. W. Mercer, Mr. C. F. Strickland, Mr. F. H. C. Tallack, Mr. Karl Walter, and Mr. George Wright, some of whom have also read the manuscript of the book or special chapters of it.

I have to thank also the staffs of the Libraries of the London School of Economics, of the Horace Plunkett Foundation (especially Mr. H. A. Izant) and of the International Co-operative Alliance for the ready assistance and attention I have received during my studies.

I owe a debt of gratitude to my friend and secretary, Mrs. S. Kalmanowsky, for the great help she has rendered in collecting the material and in preparing the book.

As a result of my investigation I have come to the following conclusions. Popular insurance, though of the greatest importance for the working population, is not covered sufficiently by social insurance and is not served satisfactorily by profit-making insurance companies. Because of this, wage-earners and small farmers have been constrained to form their own insurance societies on non-profit-making co-operative lines. The movement has been spreading rapidly during the last seventy years, and it now comprises over twenty millions of members and has accumulated funds amounting to 1,000 million pounds. It must be made clear at the outset of this study that co-operative insurance can only supplement, but not replace or eliminate, social insurance. Present-day wages do not leave

a sufficient margin for the wage-earner to cover all his insurance needs and the State must take care of a part of them.

The absence of information about co-operative insurance has been a great hindrance to the development of the activities of the movement. Capitalist insurance societies are doing their utmost to maintain an atmosphere of mystery around their organisation, activities and technique. There is not much competition amongst the profit-making insurance societies in regard to popular insurance in the matter of their rates and terms, and the man in the street has not benefited much by this "free competition". He is, however, so much impressed and mystified by the power and complexity of the vast insurance organisations that he does not dare to criticise their terms and accepts their services at any price.

This study shows that tens of millions of co-operators all over the world are provided with insurance cover by co-operative insurance institutions at better rates and conditions than those of profit-making companies. In addition, the co-operative insurance societies develop important social services for the whole working population, and support by an appropriate investment policy the activities of the other branches of the co-operative movement. The achievements of co-operative insurance are the best argument for the necessity for co-operators to pay serious attention to the field of insurance, to utilise its great possibilities for the co-operative movement in general and to clear insurance of profit-making and exploitation. I can only hope that my work will foster the development of co-operative insurance, especially on the lines of co-operative factory organisations advocated by me, and that it will be of service to later investigators of the subject.

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*August 1936.*



## CHAPTER I

### INSURANCE (NATURE AND ELEMENTS)

#### I. IS INSURANCE NEEDED ?

INSURANCE is a controversial subject in economic literature : while some authors regard it as one of the fundamental divisions in economics, just like production, distribution and consumption, others consider that insurance creates nothing.<sup>1</sup> There are two main groups of private interests to which insurance is applied : living needs of an individual and his family in face of various probable contingencies and wants ; and business or trading needs, which cover the future needs of men, as members of the existing acquisitive society. How does insurance satisfy these future needs ? They may be a consequence of an emergency or misfortune, which results in damage or loss, or they may be special wants which have nothing to do with losses. Insurance does not prevent loss or damage, but it provides at a reasonable cost the funds required in order to cover the monetary loss created by the contingency, or to meet the monetary cost of the satisfaction of a probable future need of the insured. In such a way insurance safeguards the private economy of an individual, household or enterprise from the consequences of a future contingency or provides them with funds for the satisfaction of future needs. The sentiment which gives rise to the phenomenon of insurance expresses itself in the fact that for an ordinary man " the chance of gain is overweighted by the prospect of loss " (Fisher). The majority of men prefer to sacrifice a

<sup>1</sup> Huebner, *The Annals of the American Academy of Science*, March, 1927, p. 213. See Willet, *The Theory of Risk and Insurance* in the Columbia University Studies, p. 126. Also Nicholson, *Elements of Political Economy*, p. 193 ; Seligman, *Principles of Economics*, p. 606 ; Clay, *Economics*, p. 94 ; Fairchild and Compton, *Economic Problems*, p. 321.

certain part of their income in order to avoid large losses, and therefore the anti-gambling inclination is the main source of insurance. By providing monetary cover to meet emergencies, insurance creates a sense of security which is of the greatest benefit for the normal development of social and individual activities.

The saving theory of insurance<sup>1</sup> has been so much influenced by the "saving" aspect of insurance activities that it regards insurance as a method of economic saving and capital accumulation. It defines insurance in the economic sense as the instrument which removes the necessity for uneconomic saving resulting from the uncertainty of capitalist economy, by distributing the burden of such a saving among many economic subjects who are exposed to the same uncertainties. This theory overlooks, however, the important differences which exist between ordinary saving and insurance. The first of these consists in the fact that insurance is, at best, qualified saving. An individual saver is isolated: he relies on his own savings and on the interest they yield him: but he is really a speculator who gambles on the hopes that he will live long enough to accumulate sufficient funds. Saving through insurance is quite different: in so far as it is saving, it is group saving. In a group of insured persons the funds accumulated by each and every member of the group serve the needs and interests of those who are struck by a contingency. The second difference is that saving provides against future but certain wants, as when a man saves to buy a house, or to provide for his old age or for his children. But it is no less necessary to safeguard against probable contingencies and to make good future losses, which may result from the numerous risks that menace either persons (illness, accidents, death, etc.) or objects (fire, theft, hail, etc.). Insurance provides for these future contingent needs, which are usually not covered at all or are not adequately covered by ordinary saving.

The third difference concerns the amount of accumulation: when made through an insurance institution it need

<sup>1</sup> Hülse, *Versicherung und Wirtschaft*. Halle, 1914.



not be so large as the sum which may be accumulated by individual savers for the same purpose. The group needs to save comparatively less than the individual because the total accumulation can then be brought nearer to the total probable loss; and the extra amount, which from the point of society is an undesirable expense, is greatly reduced. The economic benefits of insurance for society consist in reducing the amount of accumulation of funds and the elimination of the part played by uncertainty.<sup>1</sup>

Is the need for insurance increasing or diminishing in modern society? There is a great divergence of opinion in regard to this question, and it has to be investigated along the two main lines of division—the insurance of human contingencies and that of business risks. The higher nervous organisation of modern times makes men more anxious about the future and “simultaneously the complexity of modern industry and life makes it more difficult to foresee and make special adequate provision against the various accidents.”<sup>2</sup> The life of an individual becomes more and more hazardous, but this is counterbalanced by the greater attention paid to the needs of the population by State and municipal authorities and by the establishment of popular self-help institutions.

As regards business risks, it seems also that part of the price which we have to pay for economic progress is the increase of the hazards of economic life. The causes of increase of risks in productive activities can be found in physical, social and economic environments. In industry the element of risk is constantly increasing. Modern technology has harnessed natural forces, whose powers of destruction are as great as their powers of production. Modern transport with its terrible speed has given rise to dangers quite unknown to former generations. It is mainly the existence of insurance that permits these new forces to be utilised on a commercial scale. In agriculture, which is more dependent on uncontrolled natural forces, the element of physical risk has always been greater than in most other

<sup>1</sup> Compare Willet, *op. cit.*, pp. 141–2.

<sup>2</sup> Hobson, *The Industrial System*, p. 279.

branches of economic activity. It has been increased in some cases by modern industrial developments<sup>1</sup> but has also been considerably decreased by others, e.g. risk of drought by irrigation.

The economic and social risks, which arise from the relations established between individuals and groups of society, are often as numerous and difficult to avoid as the "natural" risks. The enormous increase in production and the acute competition have increased the conflict of interests in capitalist society and have so rendered economic activities more hazardous. Special institutions, such as the credit system, introduce many peculiar chances of loss and increase the uncertainty of economic life. New risks have arisen out of new economic environments. The complexity of modern business, with its international ramifications and connections, has created new hazards. Modern capitalist business develops long-distance planning, which results in increased risks. Business risks have been, however, a subject of sharp observation and calculation, and it has been found that they have their own regularity.

Insurance is indeed a product of modern capitalism, though some collective forms of diffusion and compensation for loss were already known in the ancient world and in the Middle Ages. It is a child of capitalist acquisitive society, which is built on the competition of private enterprise, of which the taking of risks is the main manifestation. Risks may arise under any economic system but the peculiarity of the capitalist system is that it is left to private individuals or bodies to assume them. The greater part of productive and distributive activities of the present society is organised by entrepreneurs, who employ labour, and take on themselves the risk of the functioning of the enterprise. The workers are paid a fixed remuneration, which is usually in no absolute relation to the success or

<sup>1</sup> In Germany, it has been possible to observe over a period of years a marked increase in the occurrence of hail and an aggravation of hail damage experienced in garden layouts exposed to electric current. (See *International Review of Agriculture*, 1933, No. 12, p. 500.)

failure of a given enterprise, although they run the risk of unemployment if production is unprofitable. Business activities in modern society are so organised and the division of functions has gone so far, that every kind of productive and distributive activity is highly specialised. Even agriculture is becoming more and more a specialised economy. In many countries the farmer nowadays often specialises in one branch of agriculture only, and climatic or other natural conditions which are injurious to this special branch will ruin him. In former days he used to produce on his farm a variety of products, and failure in one could be compensated for by a rich harvest in the others. Specialisation has enormously increased the output of agriculture, but it has also increased the natural and economic risks connected with it. And although agriculture has made considerable progress in the development of preventive measures against various natural contingencies the risk of specialisation remains very important.

Specialisation manifests itself in the taking of those risks which are inherent in the given industry or occupation. There are, however, in each enterprise many other risks which have to be considered, but which the entrepreneur cannot foresee or avoid (for example fire, change of weather, etc.)<sup>1</sup> These are in the first place natural risks. Insurance safeguards against those risks in which the entrepreneur is not specialising, so that he can concentrate his efforts on those risks which are incidental to his business, covering the rest by insurance. Insurance can also cover *part* of the risks in which the entrepreneur is specialising, giving him the opportunity of incurring greater risks than he would consider prudent to take in the absence of insurance, and thus increasing the scope of his productive activities. By creating a sense of security and freeing the entrepreneur

<sup>1</sup> Clark, "Insurance and Business Profits," *Q.J.E.*, Vol. VII, p. 52, introduced a division of these risks into static and dynamic. The former are always in existence (risk of fire, theft, etc.) and the latter are the risks incurred through the "uncertainties that attend the introduction of a new process" since they would have no existence if industry were to continue in a stationary state.

from certain risks entirely, and from others in part, insurance serves as a direct enhancement of productive energy. Therefore, it increases the productivity of economic efforts, and "the increased product thus created constitutes the social gain".<sup>1</sup> The main importance of insurance for the successful development of business activities lies in the fact that it opens unlimited possibilities for the further growth of specialisation, which inevitably must serve to render economic activities more hazardous. But there are forces in modern capitalism which operate in the opposite direction: they are the new corporate and monopolistic organisations in various spheres of economic activities, which create quite a new situation; these organisations eliminate competition inside the monopolistic group, while increasing it considerably outside the group and for society as a whole.

Since the War it has become obvious that the capitalist world is undergoing many important changes: individual entrepreneurs are to a considerable extent thrust out by new corporate organisations, by great combines built as limited companies, holding a monopolistic position in the national and some of them even in the international field. These new forces operate in the direction of decreasing the risks and hazards of the monopolistic capitalist enterprise. The present capitalist society is a combination of extremes. On the one hand it has produced trusts and combines, on the other hand it keeps alive a great army of small urban and rural producers and traders, small entrepreneurs, who have a hard task in competition with the economic giants. Each of these groups has very different interests in regard to insurance.

The trusts and combines have their productive, distributive and financial units in different parts of the country and often all over the world; they combine different types of enterprise; they deal with so many different industries,

<sup>1</sup> Willet, *op. cit.*, p. 97. See also Hobson, *The Industrial System*, p. 279. "Without insurance the worry caused by conscious inability to provide against an increasing number of more highly-appreciated risks would become an almost intolerable strain, enhancing the subjective or human costs of production throughout the business world."

and the variety and combination of risks they take are so wide, that they are able to group and combine them on their own and for them the need of *outside* insurance is diminishing. Such concerns have not only the advantage of uniting under one authority a range of different and separate enterprises, an advantage the value of which was long ago stressed by Adam Smith<sup>1</sup> in regard to marine insurance, but they can control the market, in such a way as to reduce considerably "the initial terrors of business enterprises" (Clark). They often slow down economic progress by withholding from the market for years important new inventions, and by so doing they safeguard themselves from the loss of capital which is invested in old and obsolete enterprises. Furthermore, the monopolistic position of some of these concerns often makes unnecessary insurance against certain trade risks, which an individual entrepreneur has to provide for. The building up of large monopolies is likely to have a very great influence on future prospects of business and trade insurance. Insurance originates not from the fact that risks exist but from the inability of individuals or entrepreneurs to pool them. The growth of large monopolies creates new bodies, which are tackling the problem of pooling their risks from quite a new angle. They will be able themselves to combine their various risks in such a way as to do without the services of the insurance institutions. Thus, the problem of self-insurance takes on a new aspect under modern capitalism for the new all-powerful monopolistic enterprises.

On the other hand a very large category of a special type of entrepreneur consists of small producers in town and country, whose productive means are their own households with the occasional assistance of hired labour: in

<sup>1</sup> See Adam Smith, *Wealth of Nations*, Vol. I, p. III. "When a great company, or even a great merchant, has twenty or thirty ships at sea, they may, as it were, insure one another. The premium saved upon them all, may more than compensate such losses as they are likely to meet with in the common course of chances. The neglect of insurance upon shipping, however, in the same manner as upon houses, is, in most cases, the effect of no such nice calculation, but of mere thoughtless rashness and presumptuous contempt of the risk."

their case it is often difficult to draw a line of demarcation between their personal and productive needs. This is especially true of agriculture in which the household serves a double purpose: as a household proper and as a unit of production. The small producers also carry the risk of entrepreneurs, and are dependent on the market and prices; but they are much more dependent in their productive activities on their own limited funds and household labour. The security which they could offer is so small that the rates they would have to pay when borrowing funds would be exorbitant. The use of technical changes, improvements and trading expansion is limited by the deficiency of their own resources.<sup>1</sup> Capitalist methods of sharp competition are of no use to them; and co-operation, as the way of collective expansion of their business, which has already been used with considerable success by small urban and rural producers in modern times, remains the main hope for their future. It is easy to understand that insurance can help these small producers to a much greater extent than the big capitalists. Fire, marine and transport insurance are a salvation for many small businesses,<sup>2</sup> because they lack the reserve funds, the variety and wide scope of operations of the big and powerful concerns. For this group of small urban and rural producers co-operative insurance opens great possibilities and they have made good use of it all over the world.

Insurance not only increases the stimulus of the entrepreneur and small producer to productive activities, but also steadies the money income of individuals. It helps to meet contingencies which would ruin an enterprise or household, if they were not thus protected by insurance. The absence of insurance would so decrease the security and safety of private life that it would considerably diminish the proportion of income spent by the individual. Some

<sup>1</sup> Hicks, "The Theory of Uncertainty and Profits," *Economica*, 1931, p. 185.

<sup>2</sup> Compare Clark, "Insurance and Business Profits", *Q.J.E.*, Vol. VII, p. 52. The absence of insurance "would force even well-established business more and more into the corporate form. New business is more powerfully impelled in that direction by a similar influence."

economists argue that in the absence of insurance saving by individuals would be considerably increased. We doubt it very much. It is very likely that hoarding would be increased, but not productive saving and investment. The great mass of the population has very limited resources for saving and investment. If deprived of insurance they would hoard their meagre surpluses and keep their investments in a very liquid form; the effective purchasing power of the population would thus be considerably contracted, and this would have an adverse effect on the economic system. On the other hand the absence of the colossal funds accumulated by the insurance companies, if there were no insurance, would in no way be compensated by the growth of individual saving. Insurance thus stimulates not only production but also consumption. The individual gains through insurance an advantage in securing greater certainty and regularity in his individual income, even though his normal income is not increased at all, and is in fact decreased by the cost of the paid premium.<sup>1</sup> Finally, insurance is a great boon to the consumer who is vitally interested in the proper organisation of insurance business, because he finally has to pay the cost of it. It is upon the consumer that the whole cost of risk would finally fall if there were no insurance. Insurance, therefore, becomes one of the main spheres of economic activity, which has to be organised in the interests of the consumers.<sup>2</sup>

The real significance and importance of insurance can easily be seen if one considers what damage would result if there were no insurance at all. It is evident that the absence of insurance would lead to such economic dislocation, that it is really difficult to imagine the present economic system operating without it. Insurance plays such an important part in the development of personal and business activities and its absence would so hamper private initiative, would

<sup>1</sup> Compare Fisher, *Elementary Principles of Economics*, p. 429. Also Wilkinson, *Mutual Thrift*, p. 3; and Manes, *Handwörterbuch der Staatswissenschaften*, Vol. VIII, p. 624. Insurance is a capital saving power . . . which therefore reconstructs property as well as income.

<sup>2</sup> Redfern, *The Consumer's Place in Society*, pp. 14-22.

so diminish the readiness of an individual to take risks, that it would have the most disastrous effect on the social and economic life of the community.

It is difficult to balance the decrease and increase of risk in various spheres of life. One would probably be right in summarising the position by saying that in modern society physical risks are decreasing, but social risks are increasing. But though the risk of death is decreasing—as shown by the increase of longevity—life assurance is expanding very considerably. In modern society the necessity for insurance is growing much more rapidly than the increase of risks. This is a result of two main causes. The higher grade of civilisation expresses itself on the one hand in the fact that people take care more and more not only of their present but also of their future needs. On the other hand improved foresight and calculation have helped considerably to develop the activities of insurance institutions and to decrease the cost of their services.

## 2. "LOSS" AND "RISK" IN INSURANCE

Nearly every definition of insurance is based on the terms "loss" and "risk".<sup>1</sup> These terms, like many others, are

<sup>1</sup> Writers on insurance usually base their definitions on the terms "loss" and/or "risks". They describe insurance as "pooling of losses" (Cannan, *A Review of Economic Theory*, p. 424; also *Encyclopædia of Banking and Finance*, p. 350); "distribution of losses" (Gephard, *Principles of Insurance*, pp. 4-5); "mitigation of losses" (*ibid.*, pp. 1-2); "making good of losses" (Golding, *Burglary Insurance*, p. 32); "indemnifying losses" (Edie, in *Economics*, p. 215, and Fetter, in *Modern Economic Problems*, p. 180); and "meeting of losses" (as Silverman, in *The Substance of Economics*). The other group employs such definitions as "sharing of risks" (Beveridge, in *War and Insurance*, p. 1; also Hewards, *Les Assurances Terrestres*, Vol. I, 1924); "pooling of risks" (Hayes, *Our Economic System*, p. 273); "dealing with risks" (Valgren, *The Insurance Needs of Agriculture*) or "consolidating risks" (Gide, *Political Economy*, p. 745; also *Consumers' Co-operative Societies*, p. 119. See Fisher, *Elementary Principles of Economics*, p. 429); "diffusing risks" (Patterson and Scholz, *Economic Problems of Modern Life*, p. 76); "combining risks" (Willet, *Uncertainty and Risks*, pp. 106 and 141; also Dobb, *Capitalist Enterprise*, pp. 53



often used in insurance literature without great care. Insurance like other branches of economics makes use of terms taken from ordinary parlance, which are based on "naïve pre-scientific ideas". These old words with their non-scientific meaning have to express new concepts and ideas, and it is not to be wondered at if they are often misleading or meaningless. The majority of writers consider that "loss" is usually the result of "taking a risk". They forget, however, that there are many losses which have nothing to do with taking risks. This is especially true in regard to natural risks: all human activities are conducted in given natural surroundings and the losses resulting from the play of natural forces cannot normally be regarded as connected with risk-taking.

In the majority of its branches insurance provides monetary cover against a probable ruinous loss. What are the reasons why a loss may be ruinous? The first reason is that the individual may not be prepared for the loss *in time*, when it occurs. The second, that the loss is too large in amount and, therefore, disastrous. Insurance substitutes for a loss *unknown* in time and in amount a *known* indemnification.<sup>1</sup> The chance of loss is frequently undervalued and, as Adam Smith pointed out, "many people despise the risk too much to care to pay for it". In different branches of insurance, especially of property insurance, the question of the actual loss of the insured becomes of great importance. Dealing with the great majority of cases, we can say that a person cannot be insured unless he faces the danger of eventual and possible loss. The insured must have a valuable interest in the property or subject insured—an insurable interest. If a person has a policy without the equivalent of insurable interest, he can profit by destruction of the property, and, therefore, he represents a serious moral hazard: the future need to be covered by insurance must be such that the insured should have no interest in the

and 164, and Weston, *Textbook of Economics*, p. 258); and "making financial provisions against risks" (Talmaki, *Co-operation in India and Abroad*, pp. 275-6).

<sup>1</sup> Compare Edie, *Economics*, p. 215.

occurrence of the contingency and should not benefit from it.<sup>1</sup> The importance of the moral hazard in insurance should not be underestimated. Many risks subscribed by an insurer include the physical hazard of property and the moral hazard of the person who is insured. The proportion of losses attributed to the moral hazard in different branches of insurance has ranged from 10 to 35 per cent., and a large company of fire assessors has estimated that 30 to 40 per cent. of every dollar paid by fire insurance companies in U.S.A. is on moral hazards and fraudulent claims.<sup>2</sup>

Considering the element of "loss" of special significance, Wagner has formulated the loss theory of insurance. Adam Smith had foreshadowed this theory by putting special emphasis on distribution of loss in insurance. "Insurance," he wrote, "by dividing among a great many that loss which would ruin an individual, makes it fall light and easy upon the whole society."<sup>3</sup> Wagner, the main exponent of the loss theory, gives the following definition of insurance :

The term insurance used in the economic sense, presents such an economic arrangement, as removes or diminishes future disadvantageous consequences of single contingencies as far as the means (*Vermoegen*) of an individual are concerned. Those contingencies must be casual for the individuals affected, and therefore, also in each single case of their occurrence, unforeseen events. Insurance operates in such a way as to prorate those injurious consequences over a series (*Reihe*) of cases threatened by a similar danger which however has not yet actually occurred.<sup>4</sup>

<sup>1</sup> See Dr. G. Schlesinger, *Kreditversicherung Assekuranz Jahrbuch*, 1929, Vol. 48, p. 80.

<sup>2</sup> *The Weekly Underwriter* (N.J., January 29, 1927, p. 249), cited by Wolfe, *Property Insurance*, pp. 73 and 92.

<sup>3</sup> Adam Smith, *Wealth of Nations*, Vol. II, p. 248.

<sup>4</sup> Wagner, *Versicherungswesen in Schönbergs Handbuch der Politischen Oekonomie*, Vol. II, p. 359. See also Foster and Catchings, *Profits*, p. 51. See the definition of Gephard, *Principles of Insurance*, Vol. I, p. 1. "Insurance is an agreement among individuals of a group or between these individuals and another group called an insurance company under the terms of which each contributes to a fund out of which contingent losses in part or in whole are paid to those suffering a loss."

The loss theory is a typical product of abstract thinking, unrelated to reality. It pays very little attention to the real activities of insurance institutions and to the character of their operations. It is built on the conception of *prorating losses* and, for this reason, it limits insurance to the compensation of actual, *effective loss* and thereby neglects all other economic needs covered by insurance. By stressing the distribution of losses as the main element of insurance the loss theory side-tracks the investigator from the real significance of insurance,—as a special device which ascertains the cost of risk-bearing and makes possible to add it to the other basic costs of production.

The importance of the conception of “risk” in insurance was emphasised by the risk-theory, which was scientifically formulated by Willet. Risk is defined by it as “the objectified uncertainty as to the occurrence of undesirable event”.<sup>1</sup> Willet shows that, by grouping risks, probability can be converted into ascertainable quantity. The “objectified uncertainty” can be estimated and the funds necessary to cover its consequences can be built up. Let us compare this with the actual development of insurance operations. The risk of loss to the individual is characterised by great uncertainty as to its degree, but if a large number of individuals are associated together in an insurance “pool” of some kind, the proportionate degree of uncertainty in the aggregate estimation of loss can be reduced: when the “pool” is further equipped with adequate reserves, the “pool” (the insurance organisation) itself can meet the remaining unresolved uncertainty by using its reserve funds (*e.g.* by having them available to meet this unresolved margin) and for the individual policy-holder uncertainty is then abolished. Thus, what the policy-holder does is to exchange an uncertain risk of loss for a small certain loss; and the operation viewed as a whole reduces uncertainty by aggregating, and provides capital reserves to meet the unresolved uncertainty. The insured includes his insurance premium among his ordinary expenses: for him uncertainty

<sup>1</sup> Willet, *op. cit.*, p. 33; B. G. O'Brien, *Notes on Theory of Profit*, p. 38; Hawley, *Enterprise and the Productive Process*, p. 111.

through insurance has been eliminated or at least covered. For the insurer uncertainty of a large number of risks grouped and combined is greatly reduced and rendered measurable. The premium charged covers this measurable risk and leaves a surplus to cover the expenses and the profit of the insurer. Insurance has fulfilled its purpose "to reduce the uncertainty regarding the incidence of risk".

The term "risk" may be applied to either probability or uncertainty. Risk is measured by the chance and dimension of the probable loss. The degree of risk increases from zero to 100 per cent. simultaneously with the increase of the probability of loss to the same extent.<sup>1</sup> Probabilities can be divided into three classes: those in which a definite mathematical expression of probability can be attained in advance of the occurrence of the uncertain event; those in which such a probability cannot be known definitely in advance, but can be established from the observation of regularity in the past behaviour of the phenomenon; and questions of judgment, in which neither a mathematical nor a statistical basis of calculation exists.<sup>2</sup> The first two forms of probability can be regarded as objective probabilities and they are usually dealt with by insurance; the last form is a subjective probability and is sometimes covered by underwriting, as a special form of insurance, and by organised speculation.

The existence of uncertainty is the fundamental condition for the existence of insurance. The uncertainty can be of three kinds. It may be uncertain first, whether the occurrence will *really* happen; secondly, whether it will happen *during a given period of time*; and thirdly, it may be uncertain what dimension the occurrence will take. Thus, it can be an uncertainty of occurrence, of date or of dimension. Uncertainty is the state of mind of the individual which corresponds to the degree of probability of an

<sup>1</sup> As Jevons has indicated, "a great casualty, which is very unlikely to happen, may not be so important as a slight casualty which is nearly sure to happen" (W. Stanley Jevons, *The Theory of Political Economy*, 4th ed., 1924, p. 36).

<sup>2</sup> Willet, *op. cit.*, pp. 28-32.

occurrence (or chance) in the objective situation : therefore, uncertainty becomes a sequel of probability. When the probability of an event is negligible or small the degree of uncertainty is also negligible or small, but, " after the point of even chance has been passed, probability increases, as the uncertainty decreases",<sup>1</sup> *i.e.* uncertainty is at a maximum when probability is one half and it decreases in both directions from that point as probability increases to one or decreases to zero. The increase in the number of occurrences results in greater regularity of their happening,<sup>2</sup> and the probability of many phenomena becomes readily predictable in groups of sufficient<sup>3</sup> size ; and risks, when taken in very great numbers, mostly merge into the certainty of the general average. The increase of the number of cases thus has a direct effect on the area of uncertainty which is more easily calculated and estimated in a large group. It becomes less for a large group than it is for any of the members of the group. " One man may or may not die, one house may or may not burn, but a thousand men or a thousand houses behave in a predictable way".<sup>4</sup> The same is true in regard to trade risks : what is of importance for an enterprise is not the risk of a failure in any of its particular contracts or operations, but " the chance of a considerable divergence from the most probable number of successes over the whole output".<sup>5</sup> With the increase of the number of operations, the chance of such divergence diminishes. In insurance " the regularity of the aggregate is invoked to correct the single instance" ; this can be achieved in different ways

<sup>1</sup> Seligman, *Principles of Economics*, p. 599.

<sup>2</sup> Waite, *Economics of Consumption*, p. 174. Fetter, *op. cit.*, p. 179.

<sup>3</sup> See Davenport, *The Economics of Enterprise*, pp. 404-5. Toss a penny once and its outcome is entirely *one* of chance—*even* chances of head and tail ; but in an infinite number of cases the proportion of heads and tails is getting nearer to the half : the chance disappears in a certainty of a nearly even number of heads and tails. Also Hardy, *op. cit.*, p. 27.

<sup>4</sup> Clark, *Studies in Economics of Overhead Costs*, p. 126, and Hayes, *op. cit.*, p. 273.

<sup>5</sup> Hicks, *op. cit.*, pp. 173-4.

and the exponents of the risk theory have spared no efforts to find them. The application of the "grouping" method for the reduction of the costs of risk-bearing is the strong point of the risk theory. On the other hand it failed to show the significance of insurance, as a special branch of modern economic organisation, and has concentrated mainly on its technical problems.

Scientific insurance is a method of business organisation which combines a sufficient number of cases and reduces uncertainty to a desired limit.<sup>1</sup> Even if the physical loss suffered by separate parts of the economic system in the absence of insurance would not be greater, its economic burden would be much heavier than at present. Nowadays the insurance institution can be relied upon at a time of emergency: it has sufficient funds to make good the loss suffered, to mend its economic consequences and to enable the policy-holder to continue his economic activities as producer and consumer with a minimum interruption. The real burden of uncertainty would be intolerable if there were no insurance, and to "avoid this burden the method of insurance is utilised in an individualistic society".<sup>2</sup>

### 3. RISK-BEARING AND INSURANCE

Risks can be divided in three main groups: natural, which are created by the play of natural forces (death, hail, fire, sea, etc.); business risks—arising out of the existing conditions of capitalist exchange economy; and artificial (or "play risks")—created artificially by men, as the expression of their gambling spirit (gambling, lotteries, betting, etc.). In accordance with the character of special risks, risk-bearing can find its expression in various ways, but there are two fundamental methods of dealing with

<sup>1</sup> Compare Knight, *op. cit.*, p. 46. "The fact is that while a single situation involving a known risk may be regarded as 'uncertain' this uncertainty is easily converted into effective certainty: for in a considerable number of such cases—'though not all of them'—the results become predictable in accordance with the law of chance and the error in such prediction approaches zero as the number of cases is increased."

<sup>2</sup> Dobb, *Capitalist Enterprise*, p. 38.

uncertainty and risks—"consolidation" or grouping and "specialisation".<sup>1</sup>

Though this study deals with insurance, which covers only the natural and business risks, it will be useful to consider briefly the main methods of risk-bearing.<sup>2</sup>

There are three main ways in which risks may be dealt with in an organised society: they can be reduced as a result of technical and economic organisation; they can be transferred to a certain person or organisation in return for a *fixed* payment, and they can be taken over by contractors for an uncertain payment, "whose amount will vary with the return given by the operation in question".<sup>3</sup> In accordance with this division risks can be eliminated (or reduced) and transferred.

Elimination of risk is usually effected by the interested parties themselves. They try to prevent the contingency by applying new technical devices, *e.g.* by using fireproof materials (in case of fire), or by exercising special care. They organise special research departments, which study the main elements of the possible contingencies from year to year, and are able eventually to forecast events and to take in time the necessary precautions against undesirable factors. Elimination of risks can also be achieved by combining

<sup>1</sup> Knight, *op. cit.*, p. 239. Also Fisher, *Nature of Capital and Income*, p. 288. On the other hand, see Gebauer, *Die sogenannte Lebensversicherung*, Jena, 1895.

<sup>2</sup> It is necessary to remember that insurance is only one of those methods, because the Universal theory of insurance regards every method of preventing or decreasing the chance of risk and loss as insurance. According to the Universal theory insurance activities include prevention of risk and its consequences (*Meidung*) by special anticipatory measures, such as the building of houses from fireproof material; suppression (*Unterdrueckung*) or minimisation of risk by such devices as the installation of pumps for fire extinction, and finally compensation (*Schadenersatz*), (see Gebauer, *op. cit.*, p. 4). The Universal theory defines insurance as the integration (*Inbegriff*) of all economic activities and institutions devised against possible future losses, which are however uncertain in their occurrence (see Gebauer, *op. cit.*, p. 4). The mixing up of insurance activities with risk-bearing in general makes the Universal theory too vague to be of any value in explaining the nature of insurance.

<sup>3</sup> Hicks, *op. cit.*, p. 173.

various factors in such a way as to counterbalance one by another, because there are certain groups of events, which have a reverse effect on various types of production or distribution: being unfavourable to some they are simultaneously favourable to others. The most important of them are variations of the weather and price changes. When these "complementary operations" are brought under the same control, when they are combined one with another, the risks connected with them offset each other to a very considerable extent. Another method, closely related to combination, is the method of compensation, by which is meant the adjustment of business affairs *inside* a given economic unit or household without the transfer of risks to third persons in such a way that losses of a given kind will be directly associated with profits of another kind. This differs from combination in that it does not rely upon the operation of chance to even out fluctuations, but seeks to match one fluctuation directly against another. Planting a dry-weather and a wet-weather crop in the same year is an illustration.

Combination of risks, as one of the methods of eliminating them, raises another important question—that of offsetting risks. This is evidently confined only to trading risks. In some cases risks can even be cancelled by offsetting them against one another as it is shown by the following example (Marshall): "if it were possible to insure simultaneously indoor entertainments against fine weather and outdoor entertainments (together with railways, etc.) against bad weather, for the same day and to equivalent amounts, the insurers might take many grievous risks off the shoulders of others: they might make a considerable profit and yet bear little net risks themselves for opposite risks would have partly extinguished one another".<sup>1</sup> Such a method not only enables a combination of risks, but it also makes it possible to ascertain risks or to minimise them to a more or less ascertainable extent for which it provides cover.

Is the offsetting of risks a characteristic of insurance? One is tempted to answer in the affirmative and to agree with

<sup>1</sup> Marshall, *Industry and Trade*, p. 255.



Willet that to stress the distribution of losses as the main element of insurance is "to put the emphasis on a comparatively unimportant aspect of it".<sup>1</sup> On the other hand, we must set against this view the fact that the offsetting of risks does not play any serious part in the most important branches of insurance, *e.g.* life, fire, sickness, etc., though one might possibly contend that life assurance and annuity business offset each other. This is often overlooked even by important investigators of the subject when writing categorically: "Insurance involves the offsetting of one risk by another: that is, the consolidation of a large number of chances whereby relative certainty is, as it were, manufactured out of uncertainty."<sup>2</sup> Offsetting of risk is quite different from consolidation (or grouping). It can be applied only in a few cases where a certain event resulting in a loss to one individual would bring an equivalent gain to another—the example quoted from Marshall being typical. Such cases would in practice enable a company insuring both sets of risks to calculate its liabilities with an exceptional degree of certainty. But the typical insurance case is that of the risk of loss which cannot necessarily be counterbalanced with an opposite type; for example, loss by fire harms some and helps none.

The method of transfer of risks to a third party can be divided into two main groups—the first is the assuming of risk by entrepreneurs, the second is the transfer of risk to specialists. The transfer of risk to specialists, who take over the risk from the interested party at a *certain* price, *assumes* two main forms: the first is "contracting out" by which the principal gets the *stipulated* service or object for the price *agreed* upon; the second is insurance through which the insured gets his compensation from the insurer on the occurrence of the contingency or stipulated event. The second group also includes underwriting, hedging,<sup>3</sup> guarantee, etc.

<sup>1</sup> Willet, *op. cit.*, p. 126.

<sup>2</sup> Fisher, *op. cit.*, p. 291.

<sup>3</sup> Hedging combines the method of compensation with the transfer of risk to "specialists" (Hardy). This transaction can be defined as a "coincident purchase and sale in two markets, which are

Insurance forms together with hedging the main method of transferring risks. It is the meeting of risk not by each individual or entrepreneur on his own, but with the help of third parties. This can be done in two different ways, which are not necessarily mutually exclusive<sup>1</sup>: (a) the risk can be transferred by the insured to a group, in which he himself participates, and be distributed in various methods amongst the members of the group or carried by the whole group *in corpore*. The relation of the member to the group can be settled in different manner and results in different forms of insurance organisation. (b) The risk can be transferred by the insured to a third party in which he, the insured, does not participate and has no direct interest (to underwriters and to proprietary insurance companies in case of non-participating policies). The simplest form of risk distribution manifests itself in the activities of fraternal societies and mutual insurance institutions working on the assessment plan. In such institutions each member or his family receives, in case of a defined contingency, a certain stipulated sum of money, which is collected from all insured members as soon as the contingency happens. This simplest form of risk distribution is developed a step further by the mutual insurance societies where members pay periodically in levies the total amount spent by the society during the given period (a year or three months) in rendering help to members struck by specified contingencies. Finally, transfer and distribution of risk finds its expression not only in mutual forms, but also in scientifically organised insurance institutions with fixed premiums, reserves, etc. In such institutions the transfer of risk results in two kinds of insurance policies: with participation and without participation. The holder of a non-participating policy has no interest in the results of the activities of the insurer, so long as the latter

expected to behave in such way that any loss realised in one may be offset by an equivalent gain in the other". The gains from the use of the method of hedging are due to the reduction in the probability of the unfavourable contingency against which such protection is sought (Hardy, *op. cit.*, p. 222).

<sup>1</sup> Willet, *op. cit.*, p. 95, and Patterson and Scholz, *op. cit.*, p. 66.

is able to meet his obligations under the policy. The position changes considerably when the insured participate in the distribution of surpluses earned by the insurance society. A participating policy gives the insured a certain share in the favourable results achieved by the insurer. It makes the insured interested in diminishing losses, and thus decreases the physical and moral hazard. The most progressive type of participating insurance is that of co-operative insurance.

The next form of risk transfer is underwriting. The underwriter undertakes to cover the insured by payment of a stipulated sum in the case of an occurrence which may involve a loss which the insured wishes to avoid. The transfer of risk takes place in underwriting in such a form, that the insured has no interest whatever in the results of the operations of the underwriter. Underwriting is therefore a risky business, as was pointed out by Adam Smith,<sup>1</sup> and it can be made safer only by the following devices: by the accumulation of considerable capital in the hands of the underwriter, or by the combination of complementary risks,<sup>2</sup> or by grouping of a large number of risks of the same kind (non-complementary risks, *e.g.* all fire) so that the degree of uncertainty is reduced. Nevertheless, it often remains on the border of gambling, though by the distribution and selection of risks, and by specialisation and detailed knowledge in the special field, it can considerably diminish the volume of risks carried.

Underwriting is used in economic literature in two senses, and this results in some confusion in regard to the sense of the term. In the first sense underwriting can be regarded as a special method of insurance: it is used to indicate a large group of private insurers, *e.g.* Lloyds underwriters, who secure as large a distribution of risk among themselves as possible, each of them accepting contracts only for small amounts. This kind of special activity is used to insure

<sup>1</sup> Adam Smith, *op. cit.*, Vol. II, p. 248.

<sup>2</sup> Opposite or complementary risks can be offset by combining them through an insurance institution in such way as to diffuse them.

new risks where no statistics are available from which to calculate the expected loss,<sup>1</sup> or where no wide distribution of risk can be obtained. It differs considerably from insurance. Insurance consists of grouping and combining many risks: underwriting is the splitting of one given risk among as many underwriters as possible. Underwriting is an *ad hoc* (from case to case) form of insurance.

In the second sense underwriting is the selection of risks by the insurer, and as such cannot be regarded as a special method of insurance (except where the insurer is bound to take all risks). The question of judgment as to whether individual risks should be accepted at normal rates, and if not at what special rates, forms one of the most important parts of insurance business. Especially in trade risks, where the underwriter tries to combine opposite risks in such a manner as to offset them one against the other, this process concerns only himself and not the insured. Used in this second sense underwriting is a special side of insurance activities. The operation is insurance as viewed from the angle of the insured, and underwriting as regarded by the insurer. The insured insures the risk, the insurer accepts or underwrites it. In profit-making insurance, however, these two groups are facing each other, not as collaborators, but as groups with different interests.<sup>2</sup>

<sup>1</sup> Easter parade hats and bonnets, the throats of opera-stars, the fingers of a pianist, the safe transit of baby elephants across the ocean, and the non-return of the Kaiser to the Prussian throne may be cited as risks which have been insured, and because of their speculative character have afforded some basis for confusing insurance and gambling.

<sup>2</sup> The complicated position of underwriting in insurance found its expression in the formation of the service theory. This theory argues that insurance in the economic sense is the taking over by the insurer of an obligation to pay to the insured or his representative a certain amount of money in the event of an occurrence (which does not depend on the will of the insured) under the condition that certain payments were made by him to the insurer. The weak feature of this definition is that it covers only underwriting and confuses it with insurance. It describes the legal and technical features of underwriting, but does not emphasise the economic characteristic of insurance. It ignores the economic significance of

Such a relation is against the real interests of insurance business as a whole. The insurance body is concerned that the policy-holder should feel a constant interest in preventing any contingency and damage which can be prevented and that he should do all he can to minimise the loss of the insurance enterprise. Co-operative insurance harmonises the interests of insurer and insured: it subscribes only policies with full participation in profits. It does not even charge higher premiums for such participation, and this makes it the soundest form of insurance.

The third group of risks—the artificial or gambling risks—has to be discussed briefly in the present study, although it does not belong to the field of insurance. The fact, however, that dealing in risks brings insurance in touch with other operations entailing risks, especially with gambling and speculation, has influenced the formation of the hazard theory<sup>1</sup> which considers that insurance is like a lottery with dates and winnings of *uncertain* draws. A second definition of the hazard theory argues that “insurance is another form of betting, but its essential purpose is the useful one of equalising and eliminating chance”.<sup>2</sup> The hazard theory has led to confusion, notwithstanding the fact that it was repudiated long ago by Adam Smith<sup>3</sup>: he showed in his interesting examination of the nature of lotteries, that they have nothing to do with insurance and in no way resemble it. But even if the insurance contract could be described as a wager, its significance is quite different from that of gambling. A man can pay £10 to an insurance company or to a bookmaker: in the one case he will receive £500 if his house is burnt down, and in the other if his horse wins the race. The material result of both

the main elements of insurance—the combination, grouping and offsetting of risks—and pays attention only to the compensatory results of insurance activities. (K. Brämer, *Handbuch der Wirtschaftslehre*, Leipzig, 1904, Vol. 4, p. 134; *Das Versicherungswesen in Hand und Lehrbuch der Staatswirtschaft*, Leipzig, 1894.)

<sup>1</sup> E. Herrmann, *Theorie der Versicherung vom wissenschaftlichen Standpunkt*, 1897, p. 40.

<sup>2</sup> Fetter, *op. cit.*, pp. 180–1.

<sup>3</sup> Adam Smith, *op. cit.*, Vol. I, pp. 109–10.

cases is the same—the receipt of £500, but the motives and effects are wholly different. The gain from betting increases the income and means increased luxury ; insurance, resulting in compensation for the burned house, means prevention of distress due to the loss of his house.<sup>1</sup> The real difference between insurance and gambling lies both in their purpose and in their consequences, in as much as insurance aims at neutralising or offsetting *already existing chances* and their consequences, and gambling *specially and purposely* creates *new* ones. The gambler converts a certainty, the sum which he possesses, into an uncertainty, whether he will have more or less. Insurance is the opposite of gambling : the insured converts an uncertainty, whether he will be able to meet his obligation in the event of a possible misfortune, into the certainty that he will. Neither the insurer nor the insured puts himself in a position whereby his gain depends on the other's loss. Rather they have a common interest in the non-occurrence of the event insured against.<sup>2</sup> In the case of gambling the gain of one individual is the loss of another ; in the case of insurance the individual is compensated, but Society has sustained a net loss. In other words, in gambling there is a redistribution of property, and in insurance the loss of property is a net loss to Society. The insurance contract reverses gambling and the process derives advantage from the law of diminishing utility by providing a reserve for probable future needs. If you were assured of three meals a day for a month, you could well give up one of the meals, in order to be guaranteed against starvation for the second month.<sup>3</sup>

The fact that insurance deals in risks makes it liable to be confused not only with gambling but also with speculation. Gambling is undoubtedly a form of speculation, it is a speculation in artificial risks. The risk is created by the gambling transaction itself, and is increased for the sake of one's profiting by one's luck and skill at the expense of another. When gambling, the loser is not compensated

<sup>1</sup> Compare Hadley, *Economics*, p. 99.

<sup>2</sup> Compare Hardy, *op. cit.*, p. 70.

<sup>3</sup> Davenport, *op. cit.*, p. 405.

by any gain to himself, "except the direct utility of the excitement".<sup>1</sup> The gambling spirit strongly animates many business transactions, but in organised speculation it takes the "midway between that of insurance and that of gambling" (Hardy). Speculation often steps in in place of insurance in cases when risks cannot be reduced to a statistical basis, and this is recourse to a shifting of risk into the hands of those who are willing to take it: such persons are speculators.<sup>2</sup> The speculative contract is a contract of transfer of risk but it is done in the form of underwriting, and the person who takes over the risk (the speculator) is trying to combine chances over a period of time.

The ideas underlying the hazard theory have caused considerable confusion especially in attempts to define the significance of the insurance element in fixing the rate of interest. It may seem strange but the trouble was started by Adam Smith, who wrote:

Stock is at the risk of the borrower who, as it were, insures it to the lender. And 4 or 5 per cent. may in the greater part of the trade be both a sufficient profit upon the risk of this insurance and a sufficient recompense for the trouble of employing the stock.<sup>3</sup>

<sup>1</sup> Hardy, *op. cit.*, p. 128.

<sup>2</sup> Fisher, *The Nature of Capital and Income*, p. 295.

<sup>3</sup> Gebauer formulates the same point clearly, when he emphasises that "the rate of interest includes together with other elements a premium for insurance in order to provide compensation for the loan to the lender in case of a loss incurred through the bankruptcy of the borrower" (*op. cit.*, p. 8). Walker, accepting that a good deal paid under the name of interest is not really interest ("not interest in the true sense")—but merely a premium for the insurance of the loan, distinguishes between two kinds of interest: "real interest" for loans of "reasonable certainty" and another kind of interest "whatever in the same market at the same time is paid above this for the use of capital is of the nature of insurance" (*Political Economy*, pp. 225-6). Clark goes further when stressing that much of what is called profit is really akin to insurance. "Ultimate profits of this kind are realised in vast amounts here and there in the business world. In quantity they do not, in different cases, correspond to the degrees of risk encountered but seem frequently to vary inversely as the dangers. A clear line of demarcation can be drawn between them and the sum that offsets

The term "insurance"<sup>1</sup> is used by Adam Smith in a wrong sense. The interest or part of it which the borrower pays to the lender is not an insurance premium and will not cover the loss if the borrower fails to repay the loan. It cannot be regarded even as part of a self-insurance fund, unless the lender has granted many loans repayable on various dates to borrowers of different classes. Only in this case may the lender exercise self-insurance, combining the risks represented by his borrowers and using part of the interest for the establishment of special funds to cover possible losses. In such cases, however, the rate of interest will have to rise considerably, as has been shown by the experience of moneylenders and of provident institutions dealing with small credit.

Speculative investments, where the possibility of loss is material, usually promise great chances of gain, and this is the inducement to the speculative investor, as to the gambler.

The differences in aim and motive of insurance and of speculation are the same as in gambling: insurance is expected to cover possible losses—risky investments to bring considerable gains. "Additional interests" (Walker) or "additional profits" (Clark) are not an insurance cover but an inducement for taking additional risks, and inducement for gambling in higher risks. This additional income does not cover the loss if occurred, whereas insurance would cover it. Even if the additional sum which has to offset the hazard represents "the true actuarial value of the risk incurred by capital" (Clark), the capitalist does not exercise insurance. He is simply risking his funds and the higher rate of interest is his inducement to do so.<sup>2</sup> It is not even

hazard. This latter sum is wholly included in the amount that represents the true actuarial value of the risk incurred by capital, and in this fact lies the key to the solution of this problem" (*Insurance and Business Profits*, p. 41).

<sup>1</sup> See also Mangold, *Grundriss der Volkswirtschaftslehre*, p. 138.

<sup>2</sup> J. S. Mill, *Principles of Political Economy*, Vol. I, p. 489. "Much depends on the characters of nations, according as they partake more or less of the adventurous, or, as it is called when the intention is to blame it, the gambling, spirit. This spirit is much stronger



self-insurance of a reasonable nature because there is no range of different insurable objects and no special reserves are created for covering future losses.

#### 4. THE MEASUREMENT OF RISKS AND INSURANCE

Insurance is built on measurement of risks. They must be measured or estimated to see if it is worth while incurring the cost of insurance against the possible losses. But if risks have to be measured, what is the basis for their measurement? Willet suggests that it is the law of diminishing utility.<sup>1</sup> The law of diminishing utility is certainly of great importance for income consideration: the first £20 of a man's income represents "a difference between life and death" (Hadley)<sup>2</sup>; the second is a matter of urgent, but less absolute necessity; the third is an increase in comfort very welcome, but not absolutely indispensable. So as the income grows, each additional £20 is subjected to a scale of diminishing utility. When analysing how to estimate the injury inflicted on a man by the loss of a particular increment of income or capital, we have to use the same calculation of the law of diminishing utility, but it will be made in the

in the United States than in Great Britain; and in Great Britain than in any country of the Continent." See also Hicks who writes: "Some writers show rather an amusing indignation at the suggestion that the 'alert business man' is in any way affected by an inclination to so ignoble a vice as gambling. Yet when we observe that our second type of uncertainty curve does very often approximate quite closely to the type assumed with such alacrity by the gambler, it becomes difficult to believe that persons with a tendency in that direction can be altogether excluded from the market" (*op. cit.*, p. 181).

<sup>1</sup> Willet, *op. cit.*, p. 54. "Every unit added to a man's wealth has less value to him than the preceding unit. . . . Thus, if two men to whom \$1,000 has the same marginal utility wager it on the toss of a penny the one who loses will necessarily lose *more* than is gained by the one who wins. There is a net loss to the two by the transaction. The effect of this psychological principle is obvious. The amount of the extra remuneration which will be required to induce the investor to incur a risk is influenced by the diminishing utility to him of additional units of capital."

<sup>2</sup> Hadley, *Economics*, p. 97.

reverse order. "As the acquisitions of capital that have come to the man have benefited him successively less and less, so the losses that are supposed to follow hurt him more and more." The loss of the last hundred pounds hurts the man "to the degree that is out of all proportions to the amount of wealth destroyed".<sup>1</sup>

Diminishing utility cannot, however, serve as a basis for measurement of risks and it explains only the inducement to pay the cost of insurance. We start with a risk (which may be expressed as a certain mathematical chance) of losing something to which a certain monetary value may be assigned (an exchange value) or more probably, a series of different degrees of risk of the loss of different amounts. All this may, at any rate in theory, be summed up at a certain monetary equivalent, which can be characterised as the highest fixed premium a man would be willing to pay to shift the risk away. One can now estimate the utility of this money sum to the individual in question, having in mind his current income. Of course, the above-mentioned monetary equivalent will be higher than the premium in fact paid by the insured, and the secret of the success of insurance business is explained by the fact that it locates losses "where they will fall on marginal increments of capital".<sup>2</sup>

The law of diminishing utility thus explains the inducement to pay the cost of insurance. The premium comes from marginal income. The loss, if it occurs, would fall upon the parts of income having higher value to the insured. The less urgent needs of the present are sacrificed in order to protect the income that gratifies the more urgent needs of the future. In insurance each party gives a smaller value for a greater: each makes a gain because insurance means a "continuous burden, rather than a concentrating and sweeping destruction" (Clark). The possible loss for the insured is always larger than for the insurance company. In the case of a fire insurance, for example, the loss to the company in case of fire would include only the money value of the buildings and goods destroyed; but in the case of

<sup>1</sup> Clark, *op. cit.*, p. 43.

<sup>2</sup> *Ibid.*, p. 51.

the insured it would also include shrunken credit and crippled business. "Having capital of his own, the credit of the insured is good for a certain amount in addition, but a part, at least, of this credit vanished with his capital."<sup>1</sup>

But if the law of diminishing utility cannot be used for measurement of risks, are there any other means for such measurement? There is a group of writers who deny the possibility of measuring risks. They argue that in business usage the term "risk" is employed to cover not only such uncertainties as can be measured with a high degree of accuracy (*e.g.* chances of loss by fire), but also uncertainties which seem hardly capable of any measurement at all (such as chances of change in the style of women's hats). Hence they conclude that it is not possible to draw a line between risks which are measurable and those that are not.<sup>2</sup>

On the other hand the majority of writers on insurance consider that risks can be measured. We agree with them, but it has to be remembered that many risks with which insurance is concerned include human elements and so are continually changing, and therefore no risk can be measured in practice with absolute accuracy. The degree of accuracy varies with the type of risk. Nearly all estimates are based on past experience which is applied to the future. They can therefore only be approximations, but in many classes of insurance this approximation can be very exact. Adam Smith was aware of this when he said that "the value of the risk, either from fire, or from loss by sea, or by capture, though it cannot, perhaps, be calculated very exactly, admits, however, of *such a gross estimation as renders it, in some degree, reducible to strict rule and method*".<sup>3</sup>

If risks are to be measured they must be grouped together. The law of averages finds its application only by grouping of things "unlike in many respects, into classes, on the basis of certain similarities".<sup>4</sup> The number of these similar characteristics changes in different objects and things, and

<sup>1</sup> Compare Carver, *The Distribution of Wealth*, pp. 270-1.

<sup>2</sup> Foster and Catchings, *Profits*, p. 51.

<sup>3</sup> A. Smith, *op. cit.*, Vol. II, p. 247.

<sup>4</sup> Hardy, *Risk and Risk Bearing*, p. 164.

as the number of similarities covering a certain group diminishes the grouping is done on the basis "of less homogeneous classes".

It is obvious that the statistical method often loses its accuracy "if the classification of things is crude, or if the cases are not numerous". But as Hardy puts it "these cases certainly shade off into Professor Knight's 'true uncertainties' <sup>1</sup> by *imperceptible degrees*, the margin of error getting larger as the evidence gets more scanty".<sup>2</sup> In any attempts at measuring risks there are in addition to the definitely calculable risks, which can be stated as a percentage of certainty, a large number of other risks, which can be taken into account, though they cannot be accurately measured. For instance, in any operation, though the majority of the risks may not be definitely calculable, there are component parts, into which the operation may be split and which may contain a number of definitely calculable risks. And furthermore, though it may be impossible to find a number of *identical* chances, there may exist a number of *similar* chances. Under such conditions the degree of probability can be estimated with a moderate degree of accuracy, though not, of course, with exactitude.<sup>3</sup>

Insurance, as Knight has put it, "deals with those business contingencies which are 'fairly' classifiable or show a relatively low degree of uniqueness, but the different branches of insurance show a wide range of variation on the accuracy

<sup>1</sup> Knight believes in the possibility of measuring risks. He writes: "The possibility of reducing uncertainty depends again on two fundamental sets of conditions. First, uncertainties are less in groups of cases than in single instances. In the case of an *a priori* probability the uncertainty tends to disappear altogether, as the group increases in inclusiveness; with statistical probabilities the same tendency is manifest in a less degree, being limited by defectiveness of classification. And the third type, true uncertainties, show some tendency toward regularity, when grouped on the basis of nearly any similarity or common element. The second fact or set of facts, making for the reduction of uncertainty, is the differences among human individuals in regard to it." (See *op. cit.*, p. 238.)

<sup>2</sup> Hardy, *op. cit.*, p. 64.

<sup>3</sup> Hicks, *op. cit.*, p. 175.

of measurement of probability which they secure".<sup>1</sup> We believe that it is possible to formulate some conditions which will help to decide if a risk is measurable and insurable or not. These conditions will differ considerably for various branches of insurance. Even if they could be formulated as general characteristics, one can always find some insurance cases which are not covered by them. Still, they hold good for the majority of types and cases, especially for human contingencies. It is useful to formulate them as guiding principles for the determination of insurability of risks.

(1) The risk and the loss must be of such a nature, that it is not in the interest or not in the power of the insured to hasten the occurrence of the contingency. Examples are death or attainment of some specified age (subject to the existence of an adequate system of birth registration) which are, comparatively speaking, free from the risk of voluntary creation or of simulation,<sup>2</sup> because of their danger or inconvenience or criminal offence. It is quite clear that this characteristic is more feasible for human contingencies than for trade risks in which the will and behaviour of the insured is of greater importance.

(2) A large number of cases must be exposed to the risk. This characteristic is a direct result of the rule that the increase of the number of cases has a direct effect on the

<sup>1</sup> Knight, *op cit.*, p. 247. One must be careful in dealing with this "wide range of variation" in order not to come to such theoretical results as Stamp, who writes in the *Report of the Commission to enquire into trading in Grain Futures*, p. 40: "Insurance or risk-bearing may be divided into three kinds: (1) Where there is an actuarial or arithmetical set-off like life insurance with a definite calculation of the percentage required to meet a particular risk. (2) The lottery type, where there is no actuarial relating of the total loss or the total gain to the total premium paid. (3) Another kind . . . where the rewards are partly due to calculations, partly to luck, where only the man who calculates wrongly ultimately pays a premium." It is quite evident that the lottery and hedging are really not insurance at all and that scientific insurance must limit itself to grouping of risks with actuarial or statistical measurement or to offsetting of risks through complementary combination of them.

<sup>2</sup> See Pigou, *Wealth and Welfare*, p. 411.

area of uncertainty and helps to deal with them in a predictable way.<sup>1</sup>

(3) The impending occurrence must be likely to fall upon a comparatively limited number of cases during any short interval. If all the houses of a certain section of a city were to take fire, the amount of fire-hose and other such apparatus in the vicinity would be inadequate. If all the insured clients of a large insurance company were to die about the same time, the greatest financial reserves would be inadequate. Fire statistics and mortality tables show that such probabilities are rare in practical experience.

(4) The probability of the occurrence must be regular and common enough to be capable of being calculated with some approximation to certainty: the occurrence must be predictable in some degree. This characteristic cannot be extended in regard to certain trade risks, *e.g.* issue risks and the so-called "risk of the death of the King". In these cases, of course, there is a considerably increased margin in the premium, to allow for the increased margin of error in estimation.

(5) The loss, when it does occur, must be important enough to be worth providing against the risk. This characteristic is a direct result of the law of marginal utility applied to insurance. As the insured pays a premium which is a certain loss in case of non-occurrence of the contingency, the possible loss connected with this contingency must be of such seriousness as to induce the insured to risk the cost of his premium.

<sup>1</sup> It cannot, however, be used in regard to certain trade risks, *e.g.* public capital issue risks, where underwriting sometimes comes nearer to taking pure chances. This must not be over-emphasised. The underwriter of public issues deals usually with a very great number of cases. He expects to get left with part or even with the whole of some of the issues he underwrites. He only reckons on the *average* to make a profit and he averages risks over time; the greater the volume of his operations the more likely he is to obtain average results. It is however quite evident that in such kind of underwriting there is a much more careful selection of risks and more consideration of each individual risk, than is usual in the business of insurance, though it may be due to the greater size of the individual risk.

(6) The cost of the cover must not be prohibitive to a large number of persons, so far at least as human contingencies are concerned. In some trade risks this characteristic needs considerable modification.

(7) The risks to be insurable must be of such a nature that they can be measured without a special and intimate acquaintance with the character of the individual policyholder.

## 5. CLASSIFICATION

Insurance deals with a very wide and varied circle of interests and objects. It is, therefore, extremely difficult, if not impossible, to cover with one definition or with one set of characteristics all insurance activities. Various types of insurance operate with such different kinds of emergency that they have to be considered separately and are not easy to explain in the same manner. The literature of insurance does not always make a clear distinction between all the different elements when dealing with the definition and classification of insurance activities.<sup>1</sup> It is therefore desirable to give at the outset a general classification of the types of insurance and to emphasise their main divisions.

The classification of insurance activities and institutions can be approached from different angles:

- (a) The object of insurance (personal and property).
- (b) Conditions of participation (voluntary and compulsory).
- (c) Status (private and public).
- (d) Legal form (limited company, mutual and co-operative).
- (e) Internal control (joint stock, mutual, co-operative and mixed).
- (f) Aim (public interest, profit-making, mutual service).
- (g) Unit insured (individual and group).
- (h) Method of premium payment (fixed and levy system).

<sup>1</sup> See Gide, *Political Economy*, p. 747, where even this prominent author puts forward a classification in which the two different principles—that of voluntary character of insurance organisation and the method of paying premiums—are mixed together.

(a) Insurance serves various economic groups of capitalist society covering the different risks incurred by them. It takes many forms of contract and operation ; it can, however, be divided into two main groups, *property* insurance, including property rights and obligations ; and *personal* covering all kinds of human risks. Property insurance indemnifies in an agreed and specified manner for loss of tangible property in case of fire, sea damage, hail, flood and storm, burglary, automobile collision, breakage of glass or machinery, etc. Property insurance covers not only tangible property, but also intangible property or property rights, such as default of debtors (credit), market loss, business interruption, strikes, title, mortgage, etc. Personal insurance deals with loss of income or increased expenditure by human beings due to three main causes : death, impairment of health (due to illness, old age or accidents) and inability to sell labour power. As it can be seen the first two causes are natural ones, and the last is a consequence of the present capitalist organisation of society.

Life assurance is the main branch of personal insurance. The length of human life is uncertain : the economic results of this uncertainty can take two main forms : a man may die before the end of his normal working life and leave his family unprovided for such an emergency ; or he may live so long that the funds provided for support in old age will be insufficient and exhausted. Personal insurance, therefore, takes several forms : it indemnifies the beneficiary for loss of income as the result of a contingency or undesired occurrence (the chief being death, accident, sickness and disability), or it secures for the insured a certain income at a stipulated date. In some cases personal insurance can also cover planned future expenditure (*e.g.* endowment for education), and becomes a combination of planned saving with insurance, the latter taking its course when planned saving is made impossible by death or other misfortune.

Personal insurance sometimes takes the form of social insurance : *i.e.* compulsory insurance introduced by legislation for those sections of the population which, if left to themselves, would be unable or unwilling to provide



ample protection by insurance. The contingencies dealt with by social insurance are natural misfortunes of human life (accidents, sickness, etc.), old age, and unemployment. Social insurance provides that the risk of loss through personal injury in the course of production should be borne mainly by the productive agents themselves with or without the help of the State. On the other hand, through social insurance against unemployment the State takes care for a certain period of the worker who has lost employment without fault of his own and helps the unemployed by raising funds for insurance from employers, workers and State sources.

(b) The second division of insurance institutions is into voluntary and compulsory organisations. Centuries ago, public authorities (Municipal and State) were dissatisfied with the limited extent to which insurance against some risks had been developed by voluntary institutions (Guilds and other mutual organisations), and made the insurance of these risks compulsory. In recent years this process has assumed extensive proportions and has led to the establishment of State or municipal insurance institutions, or to a considerable development of public supervision and control of voluntary institutions. It is evident that when people are legally *compelled* to insure even in voluntary institutions, the latter must be controlled and supervised by the public authorities especially in regard to the rates of contribution and the scales of benefit.<sup>1</sup> There are authors who advocate the development of public insurance on a wide scale on the ground that those insurance services that one requires against dangers to which all citizens are equally exposed ought to be supported by compulsory payments to the State, *i.e.* by taxation . . . "personal risks that are not occupational, but are common to the general life, should be at the charge of all".<sup>2</sup>

(c) The division of compulsory and voluntary insurance results in a further division into public and private insurance. The public insurance institutions are organised

<sup>1</sup> Compare Cannan, *The Review of Economic Theory*, p. 427.

<sup>2</sup> Smith, *Collectivist Economics*, p. 152.

by the State, municipal and other authorities under public law. Private insurance finds its expression in insurance institutions of different types and is established by private individuals or corporations. Co-operative insurance is a branch of private insurance.

(d) Great difference of opinion exists in regard to the importance of the *legal form* of insurance institutions. The limited company is the best-known type of voluntary insurance organisation, although it has always a trusteeship character. This legal form presents great advantages in regard to continuity, safety, publicity and auditing, and it is used mainly by private insurance companies. Next comes the mutual fraternal institutions organised on the principle of membership usually without share capital and shareholding. Another form of non-profit-making self-help insurance is represented by the co-operative insurance societies, established in accordance with general co-operative principles. Different forms of insurance organisation seem to offer special advantages to different types of insurance.<sup>1</sup>

(e) The method of control exercised by the members varies throughout these different types of organisation and affords another division for classification. Along this line four kinds of insurance institutions may be distinguished: the joint stock or proprietary companies, the mutual and the co-operative societies, and the mixed companies. In joint stock companies the ownership and management of the enterprise lie in the hands of the shareholders who are not under any obligation to use the insurance services of the company. The genuine mutual insurance societies are controlled by the insured members who are policy-holders of the society. The co-operative insurance institutions are controlled by co-operative organisations or by co-operatively organised members, subscribing the shares or guaranteeing the capital of the society and making use of its insurance services. In mixed companies the management is in the hands of the stock-holders, but the policy-holders are sometimes represented on the board and participate in the

<sup>1</sup> Compare Schmoller, *Grundriss der Allgemeinen Volkswirtschaftslehre*, Vol. II, p. 399.

profits. In some cases they also have a limited right to vote in general meetings.

(f) Similarly, the aim of the insurance institution may supply a criterion for classification. It may be profit-making, as in proprietary institutions in which the capital is supplied by capitalists who have invested it for the sake of profit. Or the motive for operations may be mutual security as in the mutual and co-operative institutions. Or it may be public security, as in institutions organised by public authorities.<sup>1</sup> Leaving aside public insurance, Wagner divides all insurance institutions into two groups: pure mutual institutions organised in accordance with co-operative principles, and insurance with third persons as insurers.<sup>2</sup> This division does not conform with facts, as there is developing a large and increasing group of "mixed" insurance institutions, where profits and to some extent the management are divided between the stock-holders and the policy-holders.

(g) In regard to subjects insured, they can be individual policy-holders, groups of individuals or even a certain class of society. This division results in individual, group and social insurance.

(h) The method of premium payment also affords a basis of classification. There are two main systems: the fixed premium where the insured pays a premium fixed in advance, and the levy system where the amount paid depends on the actual losses occurring during a certain period and is covered by consequent payments.

## 6. INSURANCE THEORIES AND CO-OPERATIVE INSURANCE

The main difficulty which has always confronted investigators in the field of insurance is the demarcation of the boundaries of the subject. Some authors have stretched them too far to include in insurance all forms of risk-bearing, while others have paid special attention only to one of

<sup>1</sup> Compare Philippowich, *Grundriss der Politischen Oekonomie*, p. 427; Dorn, *Festgabe für Alfred Manes*, pp. 9-10; and Hayes, *op. cit.*, p. 273.

<sup>2</sup> Wagner, *op. cit.*, pp. 393-6.

the main aspects of insurance, thus greatly narrowing the scope of their studies. The first group has widened the subject of insurance in two directions: in the mutuality theory attention is mainly devoted to the social aspect of insurance, and in two others—the universal <sup>1</sup> and the danger theory—insurance is confused with risk-bearing in general.

The mutuality theory has taken stock of the fact that in its early stages insurance was organised to a great extent on a mutual and semi-public basis. This theory emphasises the social value of insurance and defines it “as a brotherhood of men who unite against the all-destroying effects of the unfettered forces of nature”.<sup>2</sup>

The few writers of the utilitarian school, who devoted some attention to insurance, came very near the definition of the mutuality theory. They thought that the great advantage of insurance lay in the fact that “when applied in its natural and most common way it considerably alleviates the misery of mankind”. The gratification of human needs and wants can to a great extent be fostered by insurance, which they describe as “a kind of hedging against extreme misfortune by an agreement between a certain number of persons, namely those who take policies in the same office, that those who are fortunate shall support those who are unfortunate”.<sup>3</sup> A similar line of thought is followed by writers who regard insurance as an application of Christian principles. They consider insurance

an institution by which an organised effort is made that has the effect of carrying out the *Christian injunction to bear one another's burdens, for it means that when one is attacked all come to his aid.* It is insurance against dangers to which all are exposed, against

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<sup>1</sup> See p. 17.

<sup>2</sup> L. Lester, *Die Lebensversicherung in Deutschland. Ihre Volkswirtschaftliche Bedeutung*, Jena, 1890, p. 2. It is worth while to note that mutuality theories are by no means original, for Raiffeisen some 70 years ago had already assigned similar reasons for the launching of insurance operations through the agency of his credit associations. (Wuttig, *Versicherung und Genossenschaftswesen als wechselseitige Hilfsorganisation*, p. 11.)

<sup>3</sup> Macmillan, *The Promotion of General Happiness*, 1890, p. 161.

attacks the effects of which on individuals cannot be foreseen. To give assistance in such cases is a fundamental doctrine of morality.<sup>1</sup>

There is an inducement for the student of co-operative insurance to fall in line with writers of this school; for co-operative doctrine was possibly unduly influenced by ideas emanating from moral and religious doctrines. But it goes without saying that the ingenious description of the benefits of insurance and its humanitarian motives helps very little towards an understanding of its economic elements. The mutuality theories misrepresent the real nature of profit-making insurance and have sidetracked many important investigators, including Wagner and Manes.

Wagner, the originator of the loss theory, regards every kind of insurance activity as mutual and argues that even private insurance companies operate on the basis of mutuality and that private and mutual insurance are only two different legal forms of the same economic principle.<sup>2</sup> In accordance with the loss theory, the mutual character of insurance in general expresses itself in the formation of risk-communities (*Gefahrgemeinschaften*). This idea of a risk community must be dealt with in some detail. Insurance is a device whereby risks to which many individuals are exposed, are transferred to some person or to a group of persons. When the risk of the insured is transferred to an *outside* person or to an outside group, then underwriting and non-participating policy insurance takes place. When it is covered by a group of which the insured themselves are members then we deal with what may be called participating insurance. Wagner did not admit this difference. He insisted that from the economic viewpoint "the union or community of the insured is always the *only real insurer*". Even the capitalist insurance companies are always only the intermediaries for the establishment of the community of the insured who (the community) in reality cover the losses from the premiums and pay the insured out of the collected funds. Wagner even went much further;

<sup>1</sup> Smith, *Collectivist Economics*, p. 151.

<sup>2</sup> Wagner, *op. cit.*, p. 360.

for he argued that this explanation holds good also for self-insurance. Insurance consists, writes Wagner, in "uniting all separate endangered cases and in distributing amongst them the costs of compensating those of them upon whom the contingency has fallen. This is true of self-insurance, as in the other insurances."<sup>1</sup> The main shortcoming of this theory is that it is based exclusively on the conception of "risk community" (association) which is but one of the many forms of insurance. By admitting self-insurance as a legitimate form of insurance, Wagner himself provides in fact the best argument against the "association" being the "*only* real insurer".<sup>2</sup>

The real place of mutuality in insurance is quite different from that marked out for it by Wagner. The simplest mutual insurance institutions prorate actual losses among a number of persons by imposing a levy on members for compensating those of them who were struck by a contingency during a given period (usually a year). On the other hand insurance proper is not prorating actual losses, but is forming funds to cover losses, which have been *calculated in advance* in accordance with mortality tables and other devices of scientific insurance. Thus, mutual insurance bodies cover actual current losses by special levies of the insured at regular intervals but of *varying* and *uncertain* amounts, whilst insurance institutions—including co-operative insurance societies—in order to cover *possible* future losses—create funds by *regular* payments whose amounts are *fixed in advance* for the whole period for which the policy is taken out.

"Mutuality" looms so large in the loss theory apparently by reason of Wagner's special emphasis on the public character of insurance, that is by his regarding it as a social institution for serving the community in special directions.<sup>3</sup> The mutuality theory had also a considerable influence on Manes, who considers that insurance expresses itself

<sup>1</sup> Wagner, *op. cit.*, pp. 379–80.

<sup>2</sup> Gebauer, *Die sogenannte Lebensversicherung*, Jena, 1895, p. 21. See also criticism by Shenkman, *Insurance against credit risks*, p. 67.

<sup>3</sup> Wagner, *op. cit.*, p. 398.

in economic institutions built on the "principle of mutuality". Manes uses the formula "principle of mutuality" in order to show the interdependence of the "numerous economies" of the insured. But such interdependence finds its expression only in one respect: the numerous economic subjects group their risks in order to combine and/or offset a considerable part of them, thereby diminishing the total risk to be covered to proportions which can be dealt with by reasonable reserves. Manes himself was conscious of the fact that the mutuality element in his definition is not the strongest part of it and he endeavoured to explain that insurance always depends on the obligation of numerous economic subjects to cover the casual estimable capital wants of some of them.<sup>1</sup> There are three main objections to the part ascribed to mutuality in Manes' theory of insurance. Its main defect is that it does not make clear what it wants to express—the combination and grouping of risks. Mutuality (or *Gegenseitigkeit*) deals only, as previously explained, with the division of loss; and therefore some of Manes' critics are right in arguing that the "mutuality" part of his definition is too wide and covers not only insurance institutions but also saving and loan unions.<sup>2</sup>

The second objection is that the definition does not cover some types of insurance, *e.g.* underwriting, which have nothing of a collective nature because the combination and offsetting of risks by the underwriters concern only the insurer and not the insured.

The third objection is that mutuality in Manes' interpretation is not identical with a certain form of mutual and co-operative efforts or with a conscious<sup>3</sup> participation of the insured in a risk-community (*Gefahrgemeinschaft*) institution. But how can all forms of insurance be mutual when this mutual character is actually unknown to the insurer and insured? What is the value of an economic interdependence between all the insured, and between the

<sup>1</sup> Manes, *Versicherungswesen*, Vol. I, p. 58.

<sup>2</sup> Dr. G. Schlesinger, *Kreditversicherung*, p. 78.

<sup>3</sup> Manes, *Versicherungswesen*, p. 1. Also see Manes, *Handwörterbuch der Staatswissenschaften*, Vol. VIII, p. 621.

insured and insurer, of which neither of them is aware? Such unconscious mutuality is of no use or value because it finds no manifestation in economic action. Only where it becomes a conscious expression of organised co-operative or mutual effort, only when it is expressed in a new form of social organisation, only then can mutuality become a real force in insurance and in other spheres of human economic activities. Notwithstanding its failure to explain the nature of insurance, the mutuality theory has rendered a great service to investigators of co-operative insurance in that it stands as a special warning not to consider every form of insurance as mutual or co-operative.

The universal theory, which regards every method of preventing or decreasing the chance of risk and loss as insurance, is the second of the group of the "wide" theories of insurance.<sup>1</sup> The third theory of this group is the danger theory, the foundation of which was laid by Roscher,<sup>2</sup> when he wrote that "the aggregate danger is less than the sum of individual dangers, for the reason that it is more certain, and that the uncertainty itself is an element of danger". Krosta<sup>3</sup> has built up on this assumption his danger theory, which regards insurance as a method of uniting the objects exposed to the same danger in a group with the aim of equalising the various probabilities (or degrees) of danger amongst them. This theory does not cover underwriting and self-insurance; it also assumes that insurance is the only method of dealing with danger, overlooking the fact that the "endangered objects" can be often safeguarded by methods which have nothing to do with insurance. The danger theory limits the field of insurance activities to the compensation of effective loss. It does not explain the functions of those insurance branches

<sup>1</sup> See p. 17.

<sup>2</sup> Roscher, *Principles of Political Economy*, Chicago, 1882, Book IV, Ch. III, p. 261.

<sup>3</sup> Krosta, *Ueber den Begriff der Versicherung*, 1910, and *Zu den Moeglichkeiten der wirtschaftlichen Entwicklungen des privaten Versicherungswesen in Deutschland*, Berlin, 1911. "Versicherung ist die Vereinigung von gleichartig gefährdeten Objekten zwecks Ausgleichs ihres Gefahrengrades."



which cater for the satisfaction of future needs and are not affected by dangers of losses.

The second group of theories—the theories giving the narrower definitions of insurance, are very numerous. Hazard,<sup>1</sup> saving,<sup>2</sup> service<sup>3</sup> and risk<sup>4</sup>—all these elements have been given their place in insurance theory and practice and each of them has served as a basis for a special theory of insurance. These theories, however, have had a limited influence on the science of insurance because each of them has taken only one of the main elements of insurance as the basis for their definitions, other aspects being generally excluded or rather ignored. An analysis of these theories will help us to a better understanding of the various aspects of co-operative insurance.

If, as is argued by the hazard theory, insurance is a form of gambling or speculation, it could not be properly considered within the ambit of co-operative activities. We have seen, however, that scientific insurance has nothing to do with the lottery<sup>5</sup> principle or gambling and is built on different foundations: the hazard theory, therefore, does not characterise the real nature of insurance, for it over-emphasises the element of chance, the place of which in insurance it misunderstands.

The main defect of the saving theory is that it regards the accumulation of funds as the only element of insurance. But saving has to be combined with other elements before insurance takes place: the accumulation of funds must be joined with the transfer and combination of risks in a group. The economy of insurance expresses itself in increased collective saving, but saving alone does not characterise the nature of insurance. The saving theory emphasises one of the most important elements of insurance, but it cannot serve as the basis for its definition. If the saving theory is right then there would be no place for co-operative insurance as a special form of co-operative activities; for, if insurance is a collective form of *ordinary* saving, then ordinary co-operative institutions (and not special insurance ones) provide ample facilities for such saving.

<sup>1</sup> See p. 23.    <sup>2</sup> p. 2.    <sup>3</sup> p. 22.    <sup>4</sup> p. 13.    <sup>5</sup> p. 23.

Co-operative insurance stands also in full contradiction to the service theory<sup>1</sup> of insurance, and would have no reason for existence if this theory really explained the true nature of insurance. The service theory is entirely descriptive. It does not even try to analyse the economic character of insurance: it regards the insurer and insured as two groups with opposite and different interests, forgetting that in every kind of participating insurance they are members of the same group; the policy-holder participating in the insuring group is really to a great extent insurer of himself and when he makes use of the services of the society, he provides them for himself.

Finally the wants theory has to be discussed. This theory helps us more than any other to formulate the theory of co-operative insurance. German literature presents this theory as a creation of Gobbi, developed entirely by German writers and mainly by Manes. Gobbi has shown that the impossibility of satisfying all the needs of an individual leads to his choice between present and future ones and then between different future needs.<sup>2</sup> He has formulated the other characteristics which constitute the wants theory by defining insurance as an economic institution, depending upon mutuality for the purpose of covering a casual estimable need of capital. By mutuality Gobbi meant the willingness of numerous individual economic units to help each other consciously or unconsciously in case of need.<sup>3</sup> Lexis, Emminghaus, Dorn, Moldenhauer, Wörner, Marschner and many others have followed this theory without much alteration.<sup>4</sup> In fact, Jevons, Macleod, Böhm-

<sup>1</sup> p. 22.

<sup>2</sup> Gobbi, *Zeitschrift für Versicherungsrecht und Wissenschaft*, Strasburg, 1897, Vol. III, p. 258.

<sup>3</sup> Gobbi writes: "Die Versicherung bezweckt bei den geringsten Kosten und bei genuegender Sicherheit das erforderlich Kapital zu Verfügung zu stellen (Zur Befriedigung eines eventuellen Bedürfnissen) in Falle das Ereignis eintritt, welches das Bedürfniss selbst herforruft." (See *op. cit.*, p. 258. Also *Compendio di Economia Politica*, Torino, p. 120.)

<sup>4</sup> See *Handwörterbuch der Staatswissenschaften*, Vol. VIII, pp. 621-32.

Bawerk and others prepared the background for this theory by stressing the importance of the satisfaction of future probable needs, which is the kernel of the wants theory. The correct estimate of the significance of future needs and their place in the "economic plan" was not achieved easily. There is a wide literature dealing with this subject, but Böhm-Bawerk has rightly reproached economists for underestimating the importance of the future for economic activities.<sup>1</sup>

Jevons<sup>2</sup> was one of the first to express clearly the main idea of the wants theory, when he emphasised that, at a certain period of civilisation, the satisfaction of future wants becomes an important element of economic progress.

Böhm-Bawerk,<sup>3</sup> developing the same idea, has built the now familiar theory of interest on the consideration that the degree of remoteness in time has a direct effect on the value of goods. It is not our task here to deal with Böhm-Bawerk's theory of interest. For our own study it is only necessary to mention that men learn to estimate present and future needs mainly by personal and collective experience, because the majority of needs which have to be foreseen, estimated and catered for by economic activity have to be dealt with periodically. Thus, experience teaches

<sup>1</sup> "The future has a great place," writes Böhm-Bawerk, "in our economical provision, a greater indeed than people usually think. It is, of course, a commonplace, but all the same it is a truth seldom seen in all its bearings, that our economic conduct has exceedingly little reference to the present, but is, almost entirely, taken up with the future." (E. v. Böhm-Bawerk, *The Positive Theory of Capital*, 1923, p. 238.)

<sup>2</sup> Jevons, *The Theory of Political Economy*, London, 1924, 4th ed., p. 35. "The wants of a future year or of a lifetime are wholly unforeseen. But, in a state of civilisation, a vague though powerful feeling of the future is the main incentive to industry and saving. The cares of the moment are but ripples on the tide of achievement and hope."

<sup>3</sup> Böhm-Bawerk, *op. cit.*, p. 281. See also p. 237. Also *Capital and Interest*, London, 1899, pp. 423 and 259: "Present goods invariably possess a greater value than future goods of the same number and kind and therefore a definite sum of present goods can as a rule only be purchased by a larger sum of future goods. Present goods possess an agio in future goods. This agio is interest."

mankind to estimate future probable needs and to be prepared to meet them "almost unconsciously"; "we make calculations of this kind more or less accurately in all the ordinary affairs of life; and in systems of life, fire marine or other insurance we carry out the calculations to great perfection".<sup>1</sup>

Modern exchange economy has made much easier the provision for future needs: the main problem of the consumer is to provide himself with the monetary income sufficient to buy what is necessary for the satisfaction of his future needs.<sup>2</sup> The real task becomes the distribution of the outlay of funds over a given period of time. There is, however, quite a widespread but erroneous assumption that the spending of the money income is such a simple operation that it is not regarded by most individuals as a serious economic activity. They are mistaken and the main task of the co-operative movement is to make clear to the wage-earning population and the small producers the importance of spending their income in the most economical way. The co-operative movement tries to bring home to every one that his interests as a consumer must not be neglected and they must be properly cared for. Co-operative theory opposes the view that those activities by which a man gets his income are regarded as economic,<sup>3</sup> but not those by which he spends it.

The wide development of insurance confirms the fact that the real economic difficulty of satisfying future needs lies only in the right division of their costs over a long period. Insurance helps an individual, a household or an enterprise to satisfy its future probable needs at a given, known and a reasonable cost; and this is the cause of its great success as an economic device.

In English literature the same characteristic of insurance as dealing with future wants and future payments is emphasised by Macleod, who has put forward his theory

<sup>1</sup> Jevons, *op. cit.*, p. 36.

<sup>2</sup> Liefmann, *Grundlehre der Volkswirtschaft*, Vol. I, p. 367.

<sup>3</sup> Compare Liefmann, *op. cit.*, pp. 366-8. Also Redfern, *The Consumer's Place in Society*.

of annuities, as a basis for ascertaining the place of insurance in economic theory in general. Macleod argues that "The whole field of economics comprehends in its final analysis three great departments: first material things, secondly personal qualities, both in the form of labour and of credit; and thirdly, annuities." Insurance is therefore treated by Macleod as part of the theory of annuities.<sup>1</sup>

At present Manes is considered as the main exponent of the wants theory (*Bedarfstheorie*). He understands insurance as being carried out by "economic institutions built on the principle of mutuality for the purpose of covering casual estimable capital (*Vermögens*) wants".<sup>2</sup> This definition consists of two main parts: one inherited from the mutuality theory and the other from Gobbi. The second part of Manes' definition is much more satisfactory than the first.<sup>3</sup> Manes emphasises that insurance can grow and exist only under certain economic conditions. The chief of these conditions is that the population must be able to care not only for certain wants, but also for *probable* needs. A great number of economic units must also anticipate the same contingencies (*Bedarfsfälle*), but these contingencies must be of such a kind that they will not occur in regard to all the subjects simultaneously.<sup>4</sup> Under these conditions,

<sup>1</sup> Macleod, *History of Economics*, p. 191. He explains that every sum of money is equivalent not only to a certain quantity of material commodities or labour, but also to the *sum of present values* of an infinite series of future payments or to an annuity. An annuity is the right to demand and receive a series of payments. An annuity may be paid to secure a certain sum of money at a given time or on a given contingency such as a life or fire insurance.

<sup>2</sup> "Unter Versicherung versteht man: auf gegenseitigkeit beruhende wirtschaftlichen Veranstaltungen zwecks Deckung zufälligen schätzbaren Vermögensbedarfs" (Manes, *Versicherungsglossar*, p. 290). Compare Philippowich, *Grundriss der Politischen Oekonomie*: "Insurance is, therefore, the securing of such an income as is wanted for an extraordinary need. This income insurance is carried out through regular payments, which are drawn from all the incomes endangered, into the mutual insurance association formed for this purpose. Insurance therefore secures the income of individuals with the help of the formation of a mutual organised company" (p. 421).

<sup>3</sup> See p. 40.

<sup>4</sup> Manes, *Versicherungsglossar*, p. 294.

the wants theory explains insurance activities better than any other theory of insurance. The wants theory has rightly emphasised the fact that insurance transforms a want which may arise in the future into a present need and budgets for the cost of its restoration value.<sup>1</sup> It must be asserted, however, that the definition of Manes does not express all the elements of insurance with the same clarity and force. Its strong point is the definition of the purpose of insurance which is "to cover casual estimable capital wants". This short sentence expresses five important elements of insurance: the principle of compensation (cover), the object covered by insurance (wants), the eventuality and uncertainty of the need to be covered (casual), the possibility of measurement of the want to be covered (estimable) and the material and pecuniary character of the cover (capital). The wants theory is the only theory of insurance which covers all its branches, because it operates with the term "future probable wants". Such wants can be either the result of a loss or that of a need. Insurance can therefore be defined as an economic device for the satisfaction of fluctuations through time in the probable wants of the policy-holders and for grouping and offsetting of the risks to which they are exposed in order to cover their estimable casual capital wants.

<sup>1</sup> Manes, *Handwörterbuch der Staatswissenschaften*, p. 622.

## CHAPTER II

### THE SHORTCOMINGS OF POPULAR INSURANCE

#### I. UNDER-INSURANCE

INSURANCE is one of the most developed branches of modern economic life. It has drawn into the sphere of the activities of its institutions hundreds of millions of people and has accumulated milliards of pounds of reserves. The benefits of insurance are, however, not distributed evenly among all nations or groups of society. Out of a total sum subscribed by life assurance institutions all over the world, estimated to have amounted in 1930 to £33,000,000,000, over two-thirds was covered in the U.S.A., and only one-seventh in Europe.<sup>1</sup> The average life assurance per head of the population in different countries also shows striking variations. The U.S.A. heads the list with £190; it is followed by Canada with £160, Australia with £65, England £55, Sweden £45, Holland and Switzerland £32 10s., Germany £15 10s., Japan £15, Austria £15, France £7 10s., Italy £7, and other Latin countries £2 10s.

The difference in distribution of insurance cover amongst various groups of society is as pronounced as the difference between various countries. The working population, the wage-earners, small farmers and artisans, are least covered and are under-insured. Even in the U.S.A., where insurance is so popular and widely spread, 11 per cent. of the heads of working-class families carry no insurance whatever, and those who are insured have taken out small policies. One out of every four wage-earners has either no protection at all, or a policy the value of which is less than \$500; two out of five have policies for less than \$1,000 and three out of four less than \$2,000. Ninety-five per cent. of the

<sup>1</sup> See *Volksfürsorge*, July, 1932, No. 7, p. 56, also *The Statist*, May 16, 1936. It must be borne in mind, however, that in countries where social insurance is widely developed, there is a smaller need for individual insurance.

insured wage-earners are covered by policies the amount of which is less than that which they could afford to carry ; the average insurance figure is only one quarter of what can be considered as an adequate amount.<sup>1</sup>

The position in other countries is much worse, and in Great Britain even the tax-paying class is considerably under-insured and its "average amount of life assurance cover is the equivalent of about one year's income. This falls far short of any reasonably adequate standard of life assurance."<sup>2</sup> As regards industrial assurance it was stated by the Parmoor Committee (1920) that "it is seldom the case, so far as the Committee can judge, that the bread-winner of a family is himself assured for a substantial amount, despite the large sum paid in premiums by the average family".<sup>3</sup> Thirteen years later the Cohen Report (1933) declared: "The average husband and father of the British industrial class is certainly much under-insured, even when regard is had to the protection afforded to the families of wage-earners by the State System of Widows' Pensions."<sup>4</sup>

Insurance has different values for various groups of society. It is of the greatest importance for the working population, because wage-earners are less prepared for

<sup>1</sup> Dubling and Lotka, *The Money Value of a Man*, pp. 143-4. The Insurance Department, Chamber of Commerce of United States, *Insurance Bulletin* No. 9, estimates that in the U.S.A. 30 per cent. of the industrial workers carry no individual insurance and that approximately 30 per cent. more carry less than 500 dollars of life assurance. See also *American Federationist*, 1931, p. 1078: "Careful and authentic surveys have demonstrated that the overwhelming number of wage-earners and small salaried employees are not insured or are underinsured."

<sup>2</sup> *The New Statesman and Nation*, May 26, 1934, pp. 817-18.

<sup>3</sup> *Report of the Departmental Committee of the Business of Industrial Assurance Companies and Collecting Societies*, 1920, Cmd. 614 (*Parmoor Report*), p. 3, par. 16.

<sup>4</sup> See *Cohen Report* (1933), p. 9, par. 15. We consider that E. William Phillips gives a good explanation of this phenomenon when criticising the *Cohen Report* (1933) as follows: "Did the Committee seriously suggest that people of the class who formed the vast bulk of the policy-holders of the industrial companies could hope even for one moment in their wildest dreams to secure sufficient life assurance to provide permanently for their families



emergencies and contingencies than other classes. When death or illness occurs in a working-class family there is not much in the way of savings or reserves to rely upon. Under the present conditions insurance is, therefore, one of the best methods of preserving the working family from degradation and pauperism and it must be organised in the most efficient way. Popular insurance is faced, however, with a most difficult problem: the workers who usually receive weekly wages are inclined to pay their premiums accordingly, and the collection of these premiums needs an elaborate and well-organised system. At present such collection is organised at the home of the assured; this makes the cost very high and, as a result, the working population pays excessively for its industrial assurance. It is, therefore, most important for the working man, who in insurance "as in every other matter has to do the best he can with his available resources",<sup>1</sup> not to use the services of profit-making insurance companies, operating at high after their death? The most that could be hoped for from an industrial policy was a few pounds to tide over the emergency caused by death. Amongst the working classes that emergency was not after all so very different whether it was the breadwinner who died or some other member of the family." (See *Journal of the Institute of Actuaries*, Vol. LXVI, p. 351, discussion on Cohen Report (1933).)

<sup>1</sup> The apologists of profit-making insurance use the following arguments to justify the high costs of industrial assurance: "A possible source of misapprehension lay in comparing the expense ratios of the ordinary branch and the industrial branch without a due appreciation" of their differences. . . . "It was open to any prospective policy-holder to choose either the industrial branch or the ordinary branch, but he suggested that to anybody acquainted with the financial circumstances of the working classes it was no wonder that so wide a use was actually made by them of industrial assurance. The fact was, of course, that it probably afforded the only means by which they could avail themselves of life assurance at all, because their finances were on a weekly basis. Their income came in weekly by way of wages, and the outgoings—rent, trade union subscriptions, sickness club subscriptions, clothing club subscriptions, assurance premiums—must all be accounted for weekly or not at all. That, of course, added to the expense of assurance, but in life assurance, as in every other matter, a man had to do the best he could with his available resources." (See *J.I.A.*, *op. cit.*, p. 338, Mr. C. Clegg.)

costs, but to establish his own non-profit-making insurance institutions built on new principles of organisation, which will be able to reduce costs. The acute need for such new methods for popular insurance becomes evident, when one investigates the present position of industrial assurance. This can be best illustrated by the Reports of Parliamentary and other Committees dealing with the field of industrial assurance, which covers, under its 87 millions of policies, the majority of the population in this country. It involves total sums assured of nearly 1,400 million pounds and deals with the most needy and unprotected part of the nation.<sup>1</sup>

In the following pages we quote many facts and opinions from Parliamentary Reports and it is necessary to make one remark about the character of these quotations. Earlier critics of insurance institutions were frequently accused of picking out special paragraphs or lines, without doing justice to the reports, as a whole. In this investigation, however, only a negligible part of the facts and materials produced in the reports can be quoted because of lack of space; but the quotations used could be corroborated by dozens of similar ones. Moreover, to show the improvements which have taken place during recent years, comparative statements of the Reports of the Industrial Assurance Committees (issued in 1920 and 1933) will be given. We do not forget that the representatives of the industrial offices have expressed no little criticism of these Reports.<sup>2</sup> We know that there are thousands of industrial assurance officials who deplore the shortcomings of the system, and are doing their best to improve it. We know that as a

<sup>1</sup> At the end of 1933, the 15 industrial companies had subscribed over 66 million policies for £1,089,000,000 and the 155 collecting societies over 20 million policies for £245,000,000. The total income of these companies amounted to £76,100,000 for the year 1933 out of which £58,900,000 was received in premiums. (See Report of the Industrial Assurance Commissioner, 1935, p. 2.) One has to agree with W. Palin Elderton that, "if there were 80,000,000 industrial policies in existence, that was, in his opinion, too many: it ought to be in larger units on some other people or on the same people in different proportions." (See *J.I.A., op. cit.*, p. 362.)

<sup>2</sup> See *J.I.A., op. cit.*, pp. 295-368.

result of the pressure of public opinion, of legislation and of the efforts of the industrial offices considerable improvement has been achieved. But we consider it advisable to present the main shortcomings of the industrial system in the light of its latest developments and to show that there are defects inherent in the system itself, which can be eradicated only by a complete change on the lines of co-operative insurance based on local factory organisation.

## 2. LEGAL COMPLEXITY OF INDUSTRIAL ASSURANCE

Our historical survey must open with an indication that the very complication of industrial assurance legislation presents one of the main obstacles to the sound development of the business. This has resulted in the astonishing fact that the development of insurance has not always been inside the framework of the law. Insurance has not always been a law-abiding business. Legal minds have contended that insurance companies have on occasion broken the law and that they have forced Parliament to pass legislation favourable to their expansion. In any case on more than one occasion the legislature has been called upon to justify existing practice by something tantamount to an act of indemnity.<sup>1</sup> Industrial companies have issued in the past not only legal policies, but also policies which were declared by the Parmoor Report (1920) to be "illegal".

It is doubtful whether the practice of issuing illegal policies has entirely ceased [writes the Report]; however this may be, the Committee are satisfied that in many cases premiums continue to be paid on illegal policies effected before 1909 to the advantage of the companies and their agents, but with doubtful security to the holders of the policies. There is no doubt that in many cases the

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<sup>1</sup> The (Cohen) *Report of the Committee of Industrial Assurance* (1933) (Cmd. 4376) emphasises that the companies have "preferred the contrary course of disregarding the law, so far as it has proved inconvenient to them, and in the proposals which they have submitted to us Parliament is, in effect, again confronted by the *fait accompli* and is asked to validate that which cannot be undone" (p. 14, par. 22).

persuasion of the agent has been an important factor in the issue of the policy.<sup>1</sup>

It is difficult to believe that when the industrial offices have been aware that the policies issued by them are "illegal" they have continued this practice purposely. Nevertheless, they had at their disposal ample opportunities of investigating the legal position of such policies in time without waiting till they were reprimanded by official reports and public opinion.

The companies have made excellent use of the complicated insurance legislation for the protection of their interests. The contracts under the policies were drawn up in such a manner that the insured were more at the mercy of the companies<sup>2</sup> than they realised. The companies argue that considerable powers must be left to them under the contracts in order to safeguard their interests against fraud and similar offences, and that they do not abuse these powers. They insist also that a considerable part of the complexity of the contracts is due to the necessity of complying with existing legislation. There is a good deal of truth in this last argument, but the conclusion to be drawn is that steps must be taken as soon as possible to codify and simplify industrial assurance legislation.

The legal side is complex and it needs a considerable amount of special knowledge to understand it. The ignorance of the insured and the complicated legal character of the policies put the insured in the hands of the companies. It was difficult sometimes for a poor policy-holder to find even a solicitor to take up his case, and policy-holders were often afraid to take proceedings against the powerful companies.<sup>3</sup> The latter were aware of the help-

<sup>1</sup> *Parmoor Report* (1920), p. 2, par. 11. See also Minutes of Evidence, 1920 (Cmd. 618), p. 237, par. 6972. See Mr. Harcourt Johnstone, Hansard, March 29, 1934, pp. 2183-5.

<sup>2</sup> See Minutes, p. 75, par. 2006, and following, which tells of a woman who paid 50 years' premiums to the Prudential Assurance Co. and could not claim the sum assured when her insured nephew died. Also p. 73, par. 1948; p. 87, par. 2351; p. 237, par. 6969.

<sup>3</sup> See Minutes, p. 1, par. 10; p. 12, pars. 261-72; p. 83, pars. 2204-8; p. 233, par. 6843.

lessness of the policy-holders and sometimes refused them fair play. The creation of the office of the Industrial Assurance Commissioner has altered and improved the situation since a policy-holder can apply to him for advice and protection.<sup>1</sup>

### 3. LAPSES

The high percentage of lapsed policies—one of the greatest drawbacks of industrial assurance—evidently results to a very considerable extent from the “forcing of business”. This is an old feature of the industrial assurance system and has not shown much improvement during the last two decades. Some investigators even argue that high lapses are inherent in the system of industrial assurance and that the reasons for it are outside the control of the offices.<sup>2</sup> Let us consider first the magnitude and proportion of lapses.

<sup>1</sup> See *J.I.A.*, *op. cit.*, pp. 340-2. Mr. C. S. Kelham: “One of the most important points to be remembered was that the people who effected those (80,000,000) assurances were unused to legal processes.” . . . “Their habits were simple and very practical.” Because of this “any regulations affecting it must be of the simplest possible nature: otherwise the machinery would inevitably fail to work.” . . . “Not the least interesting part of that legislation was the establishment of the office of the Industrial Assurance Commissioner to deal in an expeditious way, and in a vastly simpler manner than the ordinary courts could do, with matters arising in the business. The irony of the situation was that many of the difficulties which the Commissioner was called upon to deal with were not natural matters but were difficulties created by technical offences against provisions and restrictions of the Act itself.” See also Hansard, March 29, 1934, pp. 2183-4. Mr. Harcourt Johnstone: “I think there would be no difficulty in setting up branch offices, in providing for very much greater publicity for the work of the commissioner, and indeed in generally informing insured persons that they have a right of appeal, and that they may expect to have to appeal in very great many cases.”

<sup>2</sup> See *J.I.A.*, *op. cit.*, pp. 330-1. Mr. J. Murray Laing: “It had to be admitted that lapsing in industrial assurance was heavy; it had always been and he was afraid it always would be so, and that for reasons quite outside the control of the offices. It was not peculiar to this country. Lapsing in industrial assurance was heavy in Japan and in Italy, where the business was run by the State. It was heavy in America and in Australia, where it was

The investigations of the Parmoor Committee (1920) have already revealed that

under the system of industrial assurance as it is practised, the majority of the policies effected lapse within a short time. In the case, for instance, of the Refuge Assurance Co. (which in this connection is in no way exceptional) it was found that in the ten years 1909 to 1918, 6,426,313 policies lapsed, while 9,322,336 policies were issued.<sup>1</sup>

The Parmoor Report (1920) remarks that the very high figures of lapses

can only mean that there is a section of the population which is repeatedly induced by the pressure of agents and canvassers to take out policies and which discontinues payment immediately that pressure is removed, having lost nearly the whole of whatever premiums it has paid, since the benefit assured at the outset is a mere fraction of the full sum named in the policy. So long as heavy procuration fees are allowed it will always pay the agents to devote themselves to the ceaseless pursuit of new business among this class of the community regardless of the value of the policies to the assured or of the probability that they will be kept up.<sup>2</sup>

The information published in the Cohen Report (1933) does not show much improvement. Statistics as to the numerical movement of the business in 1929 indicate

that as against nearly 10 million policies issued in that year (excluding "not taken up" cases) the number discontinued was somewhat over 6 millions, in the case of  $1\frac{1}{4}$  million of which, however, free policies or surrender values were granted, leaving the number of "lapsed" policies at  $4\frac{3}{4}$  millions.

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carried on by mutual offices. It was heavy also in France. Taking Japan, where, since 1916, the State had been very active in running industrial assurance as a monopoly, he found that, during the latest seven years for which figures were available, the new policies issued had varied from about 2,500,000 to 2,880,000, whereas the lapses and surrenders (after deducting the revivals), which in the first of these years numbered 622,000, had risen in the latest year to 1,162,000. Yet, despite that, the premium income showed an increase of over 150 per cent. in the seven years. Clearly, therefore, there were factors at work, beyond the control of the offices, in causing lapsing."

<sup>1</sup> *Parmoor Report* (1920), p. 3, par. 18.

<sup>2</sup> *Ibid.*, p. 3, par. 18.

These figures may broadly be taken as typical. Most of the lapses occur when a few months of premiums has been paid upon them: in the aggregate, the loss to the payers of the premiums is, nevertheless, considerable. It is now the practice of most of the offices to grant a free policy in the event of premiums being discontinued after two years, in one or two cases the period is one year. But there is no compensation on the lapse of policies of shorter duration, and an estimate which has been prepared for the Committee on Industrial Assurance points to the conclusion that the owners of the policies lapsing in each year pay in the aggregate not less than one million pounds in premiums in excess of the cost of the assurance "cover" which they receive.<sup>1</sup>

What is certain is

that those who have taken out policies which lapsed within a short time—and the vast majority of these have entered into the contract under the pressure of the agent or other canvasser—have had in assurance cover the value of *not more than* one-fifth of the premiums they have paid.<sup>2</sup>

The magnitude of lapses was illustrated by Mr. B. Janner, M.P.,<sup>3</sup> when he published in 1934 the following figures: "During the previous fourteen years nearly 100,000,000 policies had lapsed and the owners of them lost upwards of £100,000,000. The income of the companies concerned was £772,468,183: the management expenses and shareholders' dividends amounted to £314,981,599. But policy-holders received only £271,599,864 and the interest funds were increased to £215,000,000. The dividends to shareholders have more than doubled in this period."

That there are still complaints could be seen when the matter was raised in the House of Commons (March, 1934) by Mr. Harcourt Johnstone,<sup>4</sup> who called attention to the "gravity and extent" of what he termed the "organised swindle" of certain industrial assurance activities. Mr. Johnstone said large sums of money due to the policy-holders all over the country were never paid. In Hull alone during the months of January and February (1934) a public-spirited man obtained for 57 families approximately £560 due to them under industrial assurance.

<sup>1</sup> *Cohen Report* (1933), p. 34, par. 56.

<sup>2</sup> *Ibid.*, p. 35, par. 56.

<sup>3</sup> See Hansard, March 29, 1934, p. 2189.

<sup>4</sup> *Ibid.*, p. 2184.

The ignorance of the policy-holders in insurance matters is a great danger to the proper safeguarding of their interests. It is sometimes misused by the agents of the insurance companies, who are often as ignorant as the policy-holders, with the result that the policy-holders are exploited.<sup>1</sup> The Parmoor Report (1920) expresses its misgivings on these points.<sup>2</sup>

<sup>1</sup> See Minutes of Evidence, 1920, p. 87, par. 2351. "In the entire ignorance of the policy-holders in this large number of cases, as to the amount which is due, do you think there is any danger of the full amount not reaching the policy-holder? Yes, I do. I think they do not know how much they are entitled to at all in many cases." The *Cohen Report* (1933) recognises the ignorance of policy-holders as a point "of some danger" (see p. 41, par. 67). See also Minutes, p. 73, pars. 1948-9; p. 237, pars. 6969-70. About the ignorance of agents see Minutes, p. 9, par. 167, where the following question and answer are recorded: "What I want to ask you is whether during these 15 years you have come across many allegations amongst your cases of fraud against agents?—I cannot say that I have, but what I do think is that the agents are lamentably ignorant of insurance law and insurance work." Viscount Snowden writes thus in his introduction to a book published in recent years (Sinclair, *The Evils of Industrial Assurance*): "Here is a book by a responsible writer . . . a book that has been written out of intimate knowledge, and because of such intimate knowledge, vividly describing an enterprise, as amazing as anything in the commercial speculations of our country." In the course of this volume, Sinclair writes: "It is just a statement of simple fact, based on evidence, that the vast wealth of the Industrial Assurance Companies primarily reposes on the unsophisticated credulity and general business illiteracy of millions of small policy-holders, whose precarious incomes have been craftily and systematically exploited by clever speculators for whom the end always justifies the means, and who would use even the agony of war itself to enrich their coffers: as witness the war policies, which the Parmoor Commission of 1920 exposed as one of the greatest scandals connected with the business" (see p. 14). As Flora Slocum has shown, "the policy-holder is usually uninformed about life insurance fundamentals and often knows little even about his own policy. Clients of the social agencies, although insurance conscious, are for the most part unfamiliar with the privileges of their insurance and the insurance law of their state." See *Social Review*, Chicago, 1933, No. 4, p. 620, "Lost Resources of Life Insurance: A Study of Dependent Families in St. Louis."

<sup>2</sup> *Parmoor Report* (1920), p. 4, par. 19; also Sinclair, *op. cit.*, pp. 39-40.



It must be remembered that the agents are recruited from the same class as the policy-holders and some of them know little more about insurance than their clients. A lot of difficulties resulting from this source could only be eliminated if the offices conducted systematically wide education and instruction among their agents. The public which does not know much about the legal and financial side of insurance is approached by agents, of whom there are 100,000 in Great Britain, armed with all the modern weapons of advertising. Unfortunately little is known about the methods by which the industrial assurance companies manage the army of their agents, but from the hints which may be gathered in the official reports, it is evident that considerable pressure is brought to bear upon the agents and employees to increase business. The Parmoor Report (1920) confirms this view when it states that many of "the misrepresentations of which allegation has been made are due to this irresponsible method of forcing business".<sup>1</sup>

The representatives of the companies argue that lapses have been decreasing considerably during the last few years, but it has been impossible to find information published in support of this assertion.

On the other hand it is interesting to note that the method of calculating the remuneration of the agent by the net increase of his "book" was introduced in order to induce the agent to take special care to retain old business and to diminish lapses to a minimum.<sup>2</sup> Apparently, however, this method has not served its purpose.

The lapse of policies in the U.S.A. also continues on a

<sup>1</sup> *Ibid.*, p. 4, par. 19.

<sup>2</sup> See *J.I.A.*, *op. cit.*, p. 331. Mr. J. Murray Laing: "It was rather ironical, but none the less true, that a feature which the committee condemned was one introduced for the very purpose of keeping down the rate of lapse, namely, the prominence given to the amount of the 'increase' made by the agent in his premium collections. In the matter of new business, the object aimed at in making 'increase' the basis of the agent's remuneration, rather than the new business as such, was to cause the agent to give as much attention to preventing the lapse of an existing policy as to the securing of a new proposal, and it had had that effect where adopted in other countries as well as in this country."

large scale. Out of a total of 23,500,000 policies subscribed in 1929 2,441,000 were surrendered and 6,523,000 lapsed, making a total of surrenders and lapses in one year of 8,964,000. High commissions paid to agents and the constant pressure for the increase of business is responsible for at least 50 per cent. of the policies being written for people who has not given any thought to the cost and to their own ability to meet payment. It is estimated that the companies reporting to the New York State Insurance Superintendent made a gain from surrenders and lapses in 1929 alone of over 64 million dollars. This does not represent more than half of the amount lost to the policy-holders, because the agent's commission is usually not less 50 per cent., and therefore, it can be assumed that the policy-holders lost over 100,000,000 dollars on that item alone.<sup>1</sup>

Flora Slocum has shown that in U.S.A. unclaimed resources in life assurance, especially on lapsed policies, are not infrequently found amongst families who apply to family welfare centres for relief. The resources are lost in the sense that their existence is usually unknown to the family.

However, 35 per cent. of the families who received relief from the St. Louis Provident Association in 1928 had non-forfeiture values in their lapsed policies about which they knew little or nothing. . . . More than \$144,000 worth of extended insurance protection was verified to be in force on 600 lapsed policies belonging to 145 relief families.<sup>2</sup>

#### 4. Cost

Industrial assurance is a very costly service : premiums are charged at high rates and could be considerably reduced by proper organisation. This is borne out by evidence showing that nearly 40 per cent. of the premiums go to expenses and profits while the insured benefits only by about half of the valuation surplus. Moreover, part of the industrial premiums has been used by some companies to

<sup>1</sup> See *U.F.A.* (official organ of the United Farmers of Alberta), Vol. 10, No. 21, November, 1931, p. 538.

<sup>2</sup> Flora Slocum, *op. cit.*, p. 619.

subsidise the business of the ordinary branch and the holders of the "with-profit" policies.

To what extent have these conditions changed during the last twenty-five years? At the beginning of this period a co-operative investigator, Mr. Williams, took the returns of the ordinary and industrial companies for the year 1910 and came to the conclusion that it was safe to say that the poor paid every year £3,000,000 too much for their insurance,<sup>1</sup> and that the companies of the wealthy returned more than £4 out of every £7 of income, while the companies of the poor returned a little over £1 for every £3 of income.

The Parmoor Report (1920), published ten years after Williams' investigation, has shown "that about 44 per cent. of the total premium income on industrial policies was absorbed by expenses and commissions and, in the case of the companies, by dividends to shareholders". Before the ten years elapsed the army of agents doubled and reached 70,000.

Thus, of every 1s. paid in premiums, 5½d. went in expenses of one sort and another, and only 6¾d. coming back to the assured in benefits. Otherwise stated, of £25,000,000 a year paid in premiums by the insured population £14,000,000 only came back to them and £11,000,000 was absorbed in expenses and dividends.

The Parmoor Report (1920) indicates with full justification that "the Committee are satisfied that these expenses are too heavy and can be reduced".<sup>2</sup> Ten years later at the

<sup>1</sup> Mr. Williams concluded his investigation with the following suggestion: "Things ought not to be left in their present condition. It is not creditable to the common sense of the country that the poor should pay yearly at least three million sterling for a commodity (for life assurance is a commodity) in excess of its market value in a case where the commodity can be supplied to the poor at a proper price. It is difficult to justify the economic waste of a system by which the energies of 35,000 poor men are devoted to making the poor poorer and the rich (in the shape of the shareholders in the industrial companies) richer. It is surely incumbent on all who have the ear of the working classes, politicians, labour leaders, co-operators, social workers of every kind, to abate this evil."

<sup>2</sup> *Parmoor Report* (1920), pp. 2-3, par. 13.

time of the Cohen Committee average expenses had dropped to 38·3 per cent. (except in the two largest companies where they were lower). It is interesting to note that at the discussion at the Institute of Actuaries (on 25 March, 1935) on the Cohen Report (1933) many speakers protested most emphatically against the introduction of the 30 per cent. expenses limit advocated by the Cohen Report.<sup>1</sup> In 1934, however, the average expenses were only 3 per cent. higher than this limit, and the further introduction of the block system would certainly bring them down.

But the Parmoor Report (1920) disclosed worse things than heavy expenses. There was found in some cases "waste of premiums",<sup>2</sup> which resulted sometimes in financial disaster. The waste of premiums is not a new discovery: when considering the monetary relations between buyer and seller in insurance it must be remembered that, as compared with usual trade transactions, they are completely reversed. The buyers of insurance pay down the cost for the service to be rendered in the form of premiums and the sellers undertake to pay the sum assured during the contracted period of time, if and when the stipulated conditions are fulfilled. The procedure is similar to a subscription paid to a newspaper, where returns, when the balance sheet is made up, show an allowance for unfulfilled contracts to deliver copies paid for in advance. Obviously this state of affairs necessitates that there should be shown in the accounts against every credit of premiums received the amount of outstanding liability in the shape of insurance cover contracted for by the premiums in question. Simple as this principle appears, it is surprising to learn that

<sup>1</sup> *J.I.A.*, *op. cit.*, pp. 331-5, 346, 355, 359.

<sup>2</sup> *Parmoor Report* (1920), p. 6, par. 26. "Apart from this particular class of cases the Committee find many examples of reprehensible extravagance. Further, and largely as the result of this waste of premiums, many companies have found themselves, after a longer or shorter period, involved financially beyond redemption. Numerous amalgamations or transfers of engagements have followed, most of which have involved improvident and, in some cases, reckless bargains by the transferee companies."

many offices during long periods up to the end of the last century practically ignored in their accounts a provision for 'unearned premiums' or liability on unfulfilled contracts.<sup>1</sup> The *Statist* published fifty years ago a valuable investigation, and disclosed a mass of information about the reckless waste and misapplication of funds belonging to policy-holders.

But the valuation methods of some of the societies still remained far from satisfactory, as was indicated by the Parmoor Report (1920) forty years after the *Statist* investigations; "in several cases," writes the Parmoor Report (1920), "the basis is thoroughly unsatisfactory".<sup>2</sup> Since the Parmoor Report the position has improved mainly due to the efforts of the actuaries, who sometimes have a very difficult task.<sup>3</sup>

<sup>1</sup> *The Statist* on "Insurance Reform," 1886. See the cases of "Albert", "European", "Briton Medical and General", "Great Britain" (Mutual), "Colonial", "Emperor", "Masonic and General", "Philanthropic", "Enterprise". See also D. C. Fraser, in *J.I.A.*, *op. cit.*, p. 360. "It was not more than two generations since scandals of the gravest character were found to exist in connection with the business of ordinary life assurance—and the Life Assurance Companies Acts of 1870 and later were introduced in consequence."

<sup>2</sup> *Parmoor Report* (1920), p. 6, par. 27. "In the worst case which came before the Committee the recently effected policies, instead of being treated as involving the company in liability, were brought in as assets, credit being taken as for a secured asset, for a large excess in the value of the future premiums over the value of the sums assured, although the policy-holders have the option to lapse at any time. In this case too, the funds brought into the valuation balance sheet against the liabilities exceeded the real assets by many thousands of pounds, the difference being represented by the wholly fictitious item of 'organisation and extension expenses', *i.e.* money spent in the past which the company affects to believe can in some way be recovered for the policy-holders when the need to resort to it arises."

<sup>3</sup> As W. Palin Elderton has rightly indicated, "in many of the companies the difficulty of the actuary lay in the fact that he was between two groups of people who were really somewhat the same: the agents who were pushing from one end, and the directorate, which, to a large extent in many offices, was recruited from the business-getting class. That, he thought, was a pity, but he felt

The cost of industrial assurance has also been increased as a result of substantial dividends paid to shareholders, the more influential of whom sometimes receive high salaries and remuneration as directors and managers. The articles of association are arranged in such a way as to protect shareholders and their nominees in the management first, and the policy-holders last. The Parmoor Report (1920) describes the case of the Refuge Assurance Co., which is really most amazing :

There appear such cases [writes the Report] as the Prudential and the Refuge in which the payments to shareholders and officials respectively are conspicuous. The shareholders of the Prudential received before the war £600,000 a year as dividends on a capital of £1,000,000 and latterly £400,000, in each case free of income tax. Of these sums by far the greater part was provided by the Industrial Branch. The Refuge Company has eight (recently seven) directors. In addition to very ample dividends on the share capital, of which as the Company states they own the greater part, these directors have latterly been dividing between themselves in directors' fees (voted by the shareholders), directors' salaries (voted by themselves) and salaries as officials (authorised by themselves as directors) something like £70,000 a year.<sup>1</sup>

No comment is necessary except the reminder that the bulk of this £70,000 is collected in pennies from the poor.

The case of the Refuge Assurance Co. is not exceptional. In the U.S.A. the position is much worse, because there even some of the large mutual companies are in the hands of a few families the members of which receive fabulous salaries.<sup>2</sup> It is worth while noticing that 35 presidents of

sure that some day the actuaries would win. There was much to be done and his trust lay wholly in the actuaries" (see *J.I.A.*, *op. cit.*, p. 363).

<sup>1</sup> *Parmoor Report* (1920), p. 4, par. 20.

<sup>2</sup> The *U.F.A.* (Official Organ of the United Farmers of Alberta) publishes a few interesting examples (see fol. 20, No. 22, 1931, pp. 20-1). The family element is specially accentuated in *New York Life*. The President of the New York Life Assurance Co., John A. McCall, had employed his son-in-law, Darvin P. Kingsley, in 1902 at a salary of \$35,000, while his son John C. McCall, who graduated

insurance companies got for 1929 an aggregate of \$1,769,000 and one of them got over \$300,000. In all 250 men working for the five large companies share amongst them \$5,260,000, an average of over \$20,000 per annum.

One of the writers on the subject summarises the position as follows :

While we have yet to see a son of a president of the United States become a president, and only in very rare cases have we seen the hereditary succession to presidencies in large industrial corporations, it would seem the special qualities of insurance presidents are bred in their sons, and the virus even passes to sons-in-law in the case of a mutual company like the New York Life, where, as we have previously noted, the nominal owners, the policy-holders, are not in a position to check up on the matter.<sup>1</sup>

Finally the Parmoor (1920) and Cohen (1933) Reports have also shown that the companies treated the ordinary and industrial policy-holders very unequally, by subsidising

from college in 1899, has risen from a salary of \$2,500 in that year to \$14,000 five years later. In 1928 Mr. Kingsley, who was at this time the President of the Company, already received a salary of \$126,000 ; John C. McCall, as vice-president, received \$53,333, and Leo McCall, one of the secretaries, received \$18,267 ; Walton Kingsley, a son of Darwin, another secretary, received \$23,771. Three Buckners in the same company were paid a total of \$162,701, while another Buckner was a member of the Board of Directors. A similar position is occupied by the Eckers and Fiske family in the Metropolitan Insurance Co.

For the year 1929 the President of the Metropolitan Insurance Co., F. W. Ecker, received \$175,000. Three vice-presidents working under Mr. Ecker got between them over \$221,000. Fifteen other officials have been paid salaries ranging from \$25,000 to \$37,000. In all the Metropolitan reports that it paid seventy-one men salaries amounting to \$1,540,000 for 1929 and a footnote suggests that the list is not complete. Passing over the Prudential Insurance Co., which reported a president at \$125,000, a vice-president at \$75,000, and eleven other officers from \$25,000 to \$50,000, a total of fifty-nine officials divided in salaries alone \$1,221,000. The same position can be observed in the other " Big Five " companies. The Equitable paid its president \$127,000 and spent on thirty-eight leading officials \$818,000.

<sup>1</sup> See the *U.F.A.*, Vol. 20, No. 22, November, 1931, p. 21.

the ordinary "with profit" policy-holders at the expense of the contributions of the industrial policy-holders.<sup>1</sup>

### 5. DISTRIBUTION OF SURPLUSES

The distribution of the surpluses of industrial assurance companies is striking. Even in companies subscribing both ordinary and industrial assurance only two-thirds are used for the benefit of the policy-holders and one-third is used for other purposes, being allocated between dividends to shareholders and grants to staff, either as bonus or appropriation to pension funds.<sup>2</sup> The changes in the distribution of the surpluses during the last decade can be seen from the following table :

<sup>1</sup> The analysis of the *Parmoor Report* is so precise that it is best to quote it in full: "The difference between the apparent cost of conducting 'ordinary' and 'industrial' business respectively is very marked and there is reason to believe that, in the cases of the Prudential and the Refuge, a portion of the expenses of administering the ordinary business is charged to the industrial branch, thus subsidising the ordinary 'with profit' policy-holder at the expense of the contributors under industrial policies. Apart from commission the charge made upon the premiums for expenses has been, in the case of the Prudential, from 13 to 14 per cent. in the industrial branch, and 2½ per cent. (3⅓ per cent. in 1918) in the ordinary branch. The Refuge has similarly spent in management over 21 per cent. of the premiums in the industrial branch and 2¾ per cent. in the ordinary branch. These companies do not admit that the industrial branches are overcharged to the relief of the ordinary policy-holders, but considering the small amount of the average policy in the ordinary branch and the frequency of the premium payments, many of which appear to be quarterly, the Committee are not satisfied that the business of the ordinary branch can be conducted on the proportion of the premiums charged against it." (See *Parmoor Report* (1920), p. 5, par. 23.)

<sup>2</sup> *Cohen Report* (1933), p. 27. In the largest company (the Prudential Assurance Co., N.B.) which subscribes about one-third of the whole of industrial assurance, "the surplus on December 31, 1930, was £6,443,275, of which sums amounting to £1,247,256 were either carried forward or placed to reserves. The amount actually divided was £5,196,019. The sum of £3,712,388 was applied in bonus to policy-owners, while shareholders and agents respectively received £841,422 and £642,209."



DISTRIBUTION OF SURPLUS BY BRITISH INDUSTRIAL ASSURANCE COMPANIES <sup>1</sup>

<i>Valuation at the end of (or last preceding valuation) :</i>	1926.	1930.	1932.
Total surplus (including that brought in from the previous valuation period) . .	£6,588,523	£11,822,044	£12,522,090
How distributed :	Per cent.	Per cent.	Per cent.
To benefit of policy-owners	44·4	48·7	48·2
To staff and staff funds (including superannuation funds) . . . . .	12·3	9·5	10·0
To shareholders' accounts	16·7	14·0	14·8
To investment and other reserves . . . . .	17·4	18·4	13·6
Carried forward . . . . .	9·2	9·4	13·4
Total . . . . .	100	100	100

As can be seen from these figures the policy-holder still receives on the average less than half the surplus and the shareholders get about 30 per cent. of the policy-holders' share. It is difficult to consider this distribution very generous.

Unfortunately, very little notice was taken of the Parmoor Report's criticism : it is astonishing to find in the Cohen Report (1933) a statement which shows that the Prudential Assurance Co. has not given up its old practice :

We regret [writes the Report] that we have to criticise the bonus arrangements of the Prudential, but we do not think that we should pass entirely without comment the fact that in 1930 practically the whole of the minimum dividend of 50 per cent. (free of tax) on £250,000 of new capital which had been raised in 1929 was charged upon the surplus of the industrial assurance fund although the new capital had no connection with and served no purpose of

<sup>1</sup> *Journal of the Institute of Actuaries Students' Society*, Vol. IV, F. H. Spratling, "Industrial Assurance Profit Sharing," p. 235.

the company's industrial assurance business and although, further, the interest earning of the £1,000,000 premium at which the new capital was raised was paid into a reserve account from which equally the industrial assurance business derives no benefit.<sup>1</sup>

The figures of the distribution of surpluses of the Pearl Assurance Company for the year 1934 also show a similar unequal treatment of policy-holders of different branches—the policy-holders in the industrial branch received 33·5 per cent. of the surplus, and those in the ordinary branch 53·3 per cent. On the other hand the industrial branch contributed to the profit and loss account 23 per cent. against 13 per cent. from the ordinary branch.<sup>2</sup> These figures show that even the best-organised companies make a distinction between the business of the ordinary and industrial branches. The policy-holders of the industrial branch, the branch of the “poor”, pay more than is necessary to cover the services rendered to them; part of their premiums is used by the companies to increase profits, and sometimes even to subsidise the business of the ordinary branch. However, some investigators consider that the companies—which take only one-third of the surplus of the industrial branch, though they have no legal obligation to be so “generous” to the policy-holders—have shown a remarkably good record.<sup>3</sup> Others argue that, in comparison with

<sup>1</sup> *Cohen Report* (1920), p. 28, par. 43.

<sup>2</sup> The distribution of the main items in the industrial and ordinary branches was as follows:

	<i>Industrial Branch.</i>	<i>Ordinary Branch.</i>
Surplus . . . . .	£1,796,319 (100%)	£1,462,904 (100%)
Distributed to policy-holders	£603,319 (33·6%)	£779,532 (53·3%)
Carried to profit and loss account . . . . .	£400,000 (22·8%)	£194,883 (13·3%)

<sup>3</sup> See *J.I.A., op. cit.*, pp. 335–6. “When regard was had to the fact that the majority of industrial contracts, at the time of issue, embodied no right to participate in profits, the record of what had been done voluntarily by the offices was a remarkably good one. The principle (of participation in profits, N.B.) was adopted many years ago and while the sums allocated in that way had increased

profit-making business in general, capitalist insurance enterprises are not worse than other profit-making concerns. The field of insurance, however, is of great social significance, and ought to be specially safeguarded, so that there should be no cause for complaint. It is evident that the high cost of popular insurance, and the method of distribution of surpluses, cannot be regarded as satisfactory. There is, therefore, a great inducement to policy-holders to organise their own insurance institutions on sound co-operative lines.

#### 6. PROFIT-MAKING INSURANCE AND EXPLOITATION

It is possible now to draw some conclusions. Insurance is considered to be one of the most sound and highly-organised branches of economic activity. The writers on insurance use it often as the best example of the success of capitalist enterprise and organisation. And it would evoke probably a protest from the average reader if we insisted that some branches of insurance are unwisely organised and inefficiently administered. It must, we think, be admitted that on investigating the operations of industrial assurance companies it is found that they are based on grave exploitation of the policy-holders.

There is, however, a widespread opinion that though the exploitation of the working population by the insurance companies is great it cannot be compared with that of moneylenders.<sup>1</sup> The difference lies, according to this argu-

more rapidly in recent years, it should be made clear that that was in no way due to the 1923 Act or to the establishment of the office of the Industrial Assurance Commissioner. It was but the normal development of the system of profit-sharing adopted quite voluntarily by those offices whose financial position justified it. He submitted, therefore, that there was no justification for further encroachment on the freedom of management of institutions which had such a fine record and had shown in such a tangible manner their appreciation of the moral as well as the legal rights of their clients." (Mr. J. Murray Laing.)

<sup>1</sup> Gide writes: "Sans doute, l'exploitation n'a pas le même caractère que dans le cas de l'usurier ou du marchand d'engrais: les compagnies d'assurance sont de grandes maisons, qui sont obligée de se respecter dans une certaine mesure. Mais il n'en est pas moins vrai qu'il est très onéreux pour le paysan de s'assurer contre les

ment, in the fact that the need which is satisfied by insurance, although very important from the economic point of view, is not a pressing one. The exploitation is of different character: the insured has great choice in time when to insure and a number of companies with which he can place his insurance: he is not compelled to act under pressure as is the case when borrowing money. Our analysis, however, shows that popular insurance is subscribed by the policy-holders under great pressure and it is difficult to speak about "free choice" not in the legal but in the real sense.

All the investigations carried out during the last fifty years by impartial committees show that there are very serious defects in the system of industrial assurance. Comparing the evidence of the reports on industrial assurance over a few decades, one notices a very considerable improvement, but it is difficult not to notice that some of the most important defects have not yet been eliminated: the legal complexity, the system of acquiring business, the numerous lapses, the mal-distribution of surplus, the high expenses—all these shortcomings still remain.

The Co-operative Insurance Society has made many attempts to overcome the heavy cost of conducting industrial assurance, but it has been compelled to follow the practice of the capitalist companies and collect the premiums weekly or monthly with its resulting heavy cost.<sup>1</sup>

risques, notamment contre la grêle. C'est pourquoi il a compris facilement l'intérêt de l'association sous la forme d'assurance mutuelle, et celle-ci s'est développée plus que toute autre." (See *Associations Co-operatives Agricoles*, p. 115.)

<sup>1</sup> So far as advantages offered by the C.I.S. are concerned, on the surface these may not appear to be any different from those of its competitors, but it should not be overlooked that this Society gave £12 10s. assurance for 1d. weekly at a time when most of its competitors, including even the "Prudential", were only giving £10 to £10 10s. That they were even in those early days in a position to give equal or even better benefits than the C.I.S., has since been proved. The very advantageous benefits given by the C.I.S. round about 1918-20 and the forward move it was then making by putting out a large number of agents throughout the country, forced the profit-making companies to give better benefits; consequently, the policy-holders of other companies have profited.

Many years ago a scheme was suggested by the Co-operative Insurance Society Ltd. under which the premiums for insurance would be paid out of the quarterly dividends accruing to the member at his or her own co-operative society. By this means premiums could be paid quarterly or half-yearly and the heavy cost of paying for a collector eliminated. The scheme was definitely not a success. Later a stamp scheme was tried, the members purchasing stamps at the local co-operative stores whenever they had a few pence to spare. This was tried out in Cambridge, and although it was evidently successful for a few months it then died out and had to be dropped. The Post Office Life Assurance Scheme had a similar experience and was eventually compelled to close down because of lack of support.

The defenders of the existing system argue that the high expense ratio is inherent in the system of industrial assurance and is not due to mismanagement or bad organisation. Industrial assurance brings assurance to the door of the policy-holder, they say, and as it is a costly service, the insured must bear the cost. So long as insurance remains voluntary, and is built on weekly collection at the home of the policy-holders, the cost must remain high.<sup>1</sup>

It is difficult to agree with this argument. Even if premiums have to be collected at home there is a great scope for improvement by the introduction of the block system, by which each house would be visited weekly by one collector instead of by many. The real difficulty lies, however, in the fact that the working-class people in this country have not yet realised the importance and value

<sup>1</sup> See *J.I.A., op. cit.*, p. 338. Mr. C. Clegg: "In the ordinary branch the policy-holder was himself financially able to accumulate his premium and send it to the company, whereas in the industrial branch the position was very different. The policy-holder in the industrial branch was probably, almost certainly, unable to save beyond weekly intervals, and it was necessary for an agent to collect the premiums weekly." . . . Therefore "the benefit of collection was just as real a benefit as the assurance cover itself, and the cost must be added to the usual expenses of administration, which were probably not greatly dissimilar in the two branches."

of insurance, and they do not see, under the present system of organisation, that it can protect them in a proper manner. The real task was indicated by W. Palin Elderton when he stressed that

he would like somehow or other to educate the working classes in the idea that the insurance money should not come out of the house-keeping money. At present insurance was considered to be a matter for the women of the family, but he thought that was wrong. It was the man's business, the insurance should be mainly on his life and he would like to see the change in this direction.<sup>1</sup>

But in order to change the character of industrial assurance, so that it is not paid out of housekeeping expenses, another form of organisation is required. The great difficulty in canvassing the working man and not his wife lies in the fact that you cannot with the existing method of organisation approach the men in their place of employment.<sup>2</sup> It is necessary, therefore, to establish a co-operative factory (or office) organisation, like the credit unions in U.S.A., in order to be able to come into direct and constant contact with the wage-earners, and such an organisation will considerably facilitate the reorganisation of industrial assurance on progressive and sound lines. If premiums could be collected not at the "door", but at the place of employment, a real improvement could be effected. Such collection could be easily arranged (and is now being arranged in the U.S.A.) by the local credit union, which could do this at negligible cost and with great efficiency. If this system were introduced in this country also it would provide the solution for the most serious defects of industrial assurance.

<sup>1</sup> See *J.I.A.*, *op. cit.*, p. 362.

<sup>2</sup> As J. Murray Laing has indicated: "With regard to canvassing the working man and not his wife, that was not always practicable. For instance, an agent could not go to the gates of a factory and ask that one of the workmen should be allowed to come out, so that he could discuss the question of assurance with him. The man could be seldom seen during the working hours of the day, and while agents had to do much evening work they had to get the bulk of it done during the day like other 'workers'." (*J.I.A.*, *op. cit.*, p. 364.)

The reports cited by us show that there is very little consideration for the real interest of the millions of the insured. They are expected to stand any expense and any treatment, and they pay too heavily for the insurance services rendered. It is no wonder that the Parmoor Committee (1920) came to the conclusion that "there is little thought for the development of industrial insurance upon the sound economic lines by which it might become a valuable instrument of thrift".<sup>1</sup> Vested proprietary interests find their expression in insurance as in other fields of economic activity. It is, therefore, just as necessary for co-operative groups to take proper care of their insurance needs as it is for them to organise the sale of the products of their farms or to purchase their supplies co-operatively. When we advocate co-operative insurance, as a better alternative to present-day profit-making insurance, we believe that the former can establish another system of popular insurance, which will work more efficiently than the existing system, with low expenses and with real consideration for the interest of its policy-holding members. The details of such a system will be discussed later.

## 7. INSURANCE AND PROFIT-MAKING

Insurance services are sold, like other services,<sup>2</sup> and their price is determined by the general conditions prevailing on the insurance market. How are these conditions determined in the case of present-day profit-making insurance? As was shown by Adam Smith, in order to make

insurance a trade at all, the common premium must be sufficient to compensate the common losses, to pay the expense of management and to afford such a profit as might have been drawn from an equal capital employed in any common trade. The person who pays no more than this, evidently pays no more than the real value of the risk, or the lowest price at which he can reasonably expect to insure it.<sup>3</sup>

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<sup>1</sup> *Parmoor Report* (1920), p. 3, par. 16.

<sup>2</sup> *C.W.S. Annual*, 1914, p. 258.

<sup>3</sup> Adam Smith, *Wealth of Nations*, Vol. I, p. 110.

Adam Smith was a firm believer in the view that the insurance trade operates with "very moderate" profits

though many people [he wrote] have made a little money by insurance, very few have made a great fortune, and from this consideration alone, it seems evident enough, that the ordinary balance of profit and loss is not more advantageous in this, than in other common trades by which so many people make fortunes.<sup>1</sup>

It is difficult to agree with this prophecy as to the "moderate profits" made by the insurance companies and also with its general estimate of the position of insurance as an ordinary competitive enterprise. Profit-making insurance displays all the features of modern capitalist enterprise, especially in its tendency towards monopolistic organisation. There are good reasons for this: (a) in insurance the economic advantages of an increased size of business are even clearer than in industry and are not subject to the same limitations; (b) policy-holders requiring insurance facilities usually prefer a company which is long-established and is large and powerful; (c) large companies are able to charge a high monopoly price without thereby reducing the volume of business because the disutility of the premium is so much less than that of the possible loss which it replaces. As in other spheres of capitalist enterprise the chances of new companies are very limited. The clients go to old-established companies, because they consider them safer and better organised. Therefore, profit-making insurance becomes more and more centralised and monopolised. In life assurance to-day seven companies contract 38 per cent.<sup>2</sup> of all business in Great Britain. It is characteristic of the present methods of organisation of insurance business that competition between these leading concerns *does not reduce premium rates,*<sup>3</sup> *but results in building up a costly system of getting new business.*

<sup>1</sup> Adam Smith, *Wealth of Nations*, Vol. I, p. 110.

<sup>2</sup> Assurance Companies Returns, 1934, p. 692.

<sup>3</sup> See Minutes of Evidence of *Parmoor Report* (1920), p. 236. Mr. J. Burniston, evidence, par. 6954: "The competition for business you would think would keep the premiums down to get more business?—They are practically all tariff rates. People get practi-



It is useless to pretend that premiums are regulated by free competition between the insurance companies and that new business is free to enter the field of insurance and, by competing with the older companies, reduce rates. Unfortunately the legend about the beneficial influence of unlimited competition is so widely spread that even such a serious investigator as Knight <sup>1</sup> repeats Wagner's mistake by writing :

Different forms of organisation in the insurance field all operate on the same principle. It matters not at all whether the persons liable to a given contingency organise themselves into a fraternal or mutual society or whether they separately contract with an outside party to bear their losses as they fall in. Under competitive conditions and *assuming the probabilities involved are accurately known, an outside insurer will make no clear profit* and the premiums will under either system be equal to the administrative costs of carrying on the business.

The Cohen Report (1933) takes an opposite view on the problem of competition :

Our survey of the business of industrial assurance [writes the Committee] has led us to the conclusion *that excessive competition with its almost feverish pressure for "increase" firstly by offices upon their staff, and secondly by the latter upon the working class population, is responsible for the principal defects of the business.* To this competition and pressure must be ascribed the masses of uneconomical contracts (many of them of doubtful legality) into which people are induced to enter and the inordinate numbers of lapses which ensue with the heavy loss resulting from them.<sup>2</sup>

It is quite evident that at present the insured pays more than is necessary and economic, but he is apparently helpless to alter things. Some writers even try to show that the insured enjoys this position : "The community knows", writes Clark, "that it is paying in premiums far more than

cally all one rate. Par. 6955 : Do you say that industrial insurance is in the hands of a few companies (is that your point) and societies, that they club together and associate together and have tariff rates and the laws of competition are not working?—Yes, they can practically exclude any new companies : they have such a hold now."

<sup>1</sup> Knight, *op. cit.*, p. 247. Compare Wagner, *op. cit.*, p. 360.

<sup>2</sup> Cohen Report (1933), p. 42, par. 69.

it would otherwise lose by fire: and it rejoices notwithstanding." The reports of the numerous committees on insurance, and especially industrial insurance (quoted above), reveal a very different picture. They reveal much misery and injustice, and very little in the nature of rejoicing. Considering the question in the abstract one would expect that profit-making insurance companies were started by entrepreneur-shareholders who put up capital-forming reserves, to balance the unresolved uncertainty in their clients' aggregated risks. This capital would now earn super-normal reward as the companies have a monopoly position. Actually, when studying the history of the development of the large insurance companies one discovers that the founders have subscribed astonishingly little capital to the business, and their claim for profits cannot be justified from the capital point of view. "Primary accumulation" manifests itself in insurance probably more than in other branches of capitalist economy. The majority of the large insurance companies in Great Britain were started with a negligible capital and some of them even without any capital whatever, e.g. Salvation Army Insurance Ltd.<sup>1</sup>

An interesting illustration is the case of the Blackburn Philanthropic Society Ltd. It was formerly a collecting society registered under the Friendly Societies Act.

<sup>1</sup> This is a company limited by guarantee, 20 members being each "responsible for a sum of £10 in the event of the society being wound up during his lifetime. There is thus no share capital and the utmost amount that can be called up is less than £200. It appears that in the years 1895-7 sums amounting to £24,000 were paid into the life assurance funds of the Society from Salvation Army resources, and that in 1896 and 1898 resolutions were passed by the Society creating 2,400 shares or interests, the holders" of which are drawing large annual sums as profits. . . . "The amount so drawn in 1930 was £83,853 and with £10,000 transferred to the Staff Pension Fund, 12 per cent. of the industrial premium income of the year was withdrawn from the policy-owners. As, in this office, expenses and commission absorbed 38.8 per cent. of the premiums in 1930, the total charge in that year for purposes other than benefits to policy-owners was approximately 51 per cent. of the industrial premiums." See *Cohen Report* (1933), p. 24, par. 40.

It was converted in 1913 into a proprietary company with an authorised share capital of £1,000,000 of which nearly £800,000 has been issued. These shares

were allocated on application to the members then on the books, of whom at December 31, 1912, there were 373,736, in proportion to the contributions they had paid to the Society but nothing was paid for them, and against the "capital" the balance sheet for 1930 contains as an asset the item £798,736 as "capital issued as Goodwill". A considerable period elapsed before any dividends were paid and during this period a large change took place in the ownership of the shares."

### When the Report was compiled

9 directors and the secretary held between them 86,713 shares and 59 persons (each of whom holds at least 100 shares) being superintendents, inspectors and agents or persons living at the same addresses as directors and other officials own in all 58,659 shares. Of the balance, not less than 446,723 shares were owned by 639 persons, each of whom possesses more than 100 shares. Most of these people . . . are shown by the share registers to be publicans, grocers, and other tradesmen.

Hence, it is evident—concludes the Report—that a very large proportion of the shares have passed out of the hands of those to whom they were allotted.<sup>1</sup>

### The Report adds :

Certain inferences may be reasonably drawn. The Company now pays a tax-free dividend of 3½ per cent. on the authorised capital. This is, on its face, a modest rate, but when it is realised that no cash was subscribed and no liability imposed on shareholders, it is easy to see that an apparently modest dividend paid mainly out of the industrial assurance fund may be a serious burden on the policy-owners who themselves receive no share of the profits earned by that fund. *The "capital" of the Blackburn Philanthropic for no part of which any money was to be paid*, was in fact fixed at the equivalent of rather more than seven times the premium income of the year immediately after the society was converted into a company. The effect of this arrangement in the case of the Blackburn Philanthropic is that, in 1930, the apparently small dividends to shareholders absorbed 6 per cent. of the premiums paid by industrial policy-owners. With a grant to staff pension fund and the expenditure on management and commissions (41·4 per cent.) the total

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<sup>1</sup> See *Cohen Report* (1933), p. 25, par. 40.

drain of expenses and profits on the premium income of the year was approximately 48 per cent. It is a small matter for wonder, in these circumstances, that there are no profits for small industrial policy-owners in this one-time mutual society.<sup>1</sup>

It is hardly necessary to add any comments to this conclusion.

As can be seen from the previous pages, some of the companies were originally formed as mutual societies, and only later, when the business proved a success, were they converted into limited companies and profit-making concerns. The initial shareholders or directors did not invest much hard cash in these concerns, but instead at various meetings they allocated themselves "out of profits" shares for services rendered. For example, it is estimated that in the Prudential the actual amount of cash originally put in as share capital out of the paid-up capital of a million pounds was a maximum of £10,000.<sup>2</sup> Bernard Brooke, General Secretary of the National Amalgamated Union of Life Assurance Workers, is right in insisting that "in the Prudential itself the capital is practically in very few hands and that means that they draw the revenue from that capital, and my point is again that they have not put

<sup>1</sup> See *Cohen Report* (1933), p. 26, par. 40.

<sup>2</sup> The Evidence of Sir George May before the Parmoor Committee (1920) is of such interest that it should be read by every student of popular insurance. (See Minutes of Evidence, pp. 128-9, pars. 3504-29.) The Chairman of the Committee summarised it in the following way: "It occurs to me that whether the shares have been transferred or not to a new shareholder, in substance this capital of one million pounds which is paid in cash, has the whole of it, subject to some small original sum, been provided out of the dividend or profits" (see par. 3522). The following quotation is also of interest (par. 3524): "Mr. Hodge just draws my attention to one question which was put when Mr. Dawey was being examined before the Select Committee on Friendly Societies. The question is asked by Mr. Howorth (I suppose that is the present Sir Henry Howorth) at question 4993: (Q.) So that what I originally said was perfectly right: that except the original £10,000 which was subscribed in hard cash, the whole of the rest of this capital has in effect been handed over to the shareholders in the shape of bonus? (A.) Yes, it has either bought new shares or paid up calls upon shares. And that is accurate still? Yes, that is perfectly accurate."

actual cash in it which warrants them in taking that amount".<sup>1</sup>

Similar developments have taken place in other companies. For example in the "Refuge" eight families held almost the entire capital of £300,000 and also directors' seats and governing positions.<sup>2</sup> The Pearl Assurance Co. Ltd., now

<sup>1</sup> Minutes, 1920, p. 46, par. 1242. The early history of the "Prudential" is of such a special interest that it is worth giving it in some detail. Eighty-eight years ago a small group of people had started a concern to which they gave the name of The Prudential Mutual Assurance Investment and Loan Association. The name of that company changed many times and is now The Prudential Assurance Co. Limited. At the end of 1860 a deed of settlement of the British Prudential Assurance Co., signed by ten persons, was filed at Somerset House. The first list of shareholders contained only thirteen names. After the deed of settlement of December, 1860, the nominal capital of the Company was £100,000 in 5,000 shares of £20 each, but only 11s. 6d. per share paid up. The total amount paid up previous to 1871 was £5,389. This was held by about 34 shareholders. In that year it was increased to £10,052. This was followed by further reconstructions in 1876-81, and in 1886 when the capital was increased to a nominal amount of £1,000,000. Previous to 1886 there were 40,000 shares held by 138 shareholders, three-fourths of the whole being held by about 13 of the principal officials of the Company—Directors, Managers, etc., and among the holders of the remaining shares about 20 were also officers in the Company.

<sup>2</sup> See Minutes of Evidence of the Parmoor Committee (1920), p. 45, par. 1233. Bernard Brooke said: "The Refuge used to be a mutual friendly society and has evolved into a limited company. My point is this, that the present shareholders, or the present directors, have not put actual cash into these concerns, but at their various meetings, they have distributed shares to themselves or shares for services rendered instead of money, and the whole of this concern, I think I am correct—I was at Somerset House eighteen months ago on this—bar £300 is in the hands of eight families, of which I have a list here which you can get, and these eight families also hold the directors' seats and the management positions. And I think I am also correct in saying that these eight families take an enormous sum a year out of this concern; in fact, they have an industrial side and this is the money that agents collect from the people; the agents build the business by their personality and persuasive powers, but neither the people nor the agents have any control, and to put it in a blunt statement these companies are moneylenders with other people's money. And the same directors who represent the

one of the largest companies, was registered in 1864 and in 1865 700 shares at 10s. were called up. This company was started by seven working men in the East End of London, who amongst them put in not more than £300 only after the concern had been going for three years.<sup>1</sup> The position is similar in the London and Manchester Assurance Co.,<sup>2</sup> and in The Pioneer, where 39,205 shares out of 100,000 are in the hands of five families of Directors.<sup>3</sup>

It is not surprising that the Parmoor Committee (1920) came to the conclusion that the share capital in insurance companies plays a less important part than in industry and trade.<sup>4</sup>

In view of the nature of the business [writes the Report] it is evident that the share capital of industrial assurance companies exercises much less important functions than that of commercial or manufacturing undertakings, and this is especially the case where there is no contingent liability for uncalled capital. In these circumstances the case for high dividends appears to the Committee to rest upon somewhat *slender* foundations and they think that, in general, the policy-holders should receive a substantially greater part of the profits than is accorded to them at the present time. They express the hope that this indication of their opinion may be of service to the companies, with whom the decision rests.<sup>5</sup>

Some writers on insurance have put forward another justification for profit-making insurance. They argue that "uncertainty is a disutility and the person who assumes it must be rewarded for doing so".<sup>6</sup> Assumption of risk by the insurer is thus the justification of profit-making

same family are the board that sits round and allocates the profits to themselves, which I say is other people's money. Then, referring to what I say later in my notes, that is why I prefer such a thing as the friendly societies and the delegate system, so that the people should share in their own profits."

<sup>1</sup> Minutes, 1920, p. 46, par. 1248.

<sup>2</sup> *Ibid.*, p. 46, pars. 1253-4.

<sup>3</sup> *Ibid.*, p. 46, par. 1256.

<sup>4</sup> *Parmoor Report* (1920), p. 7, par. 33. "The Committee have been impressed by the contrast between the dividends paid to the shareholders and the share in profits which has been assigned to the policy-holders".

<sup>5</sup> *Parmoor Report* (1920), pp. 7-8, par. 33.

<sup>6</sup> O'Brien, *Notes on the Theory of Profit*, p. 19.

insurance. As insurance institutions group, combine or offset the risks assumed, those risks become of a lower degree of uncertainty to them. Therefore, they are able "to relieve the insured of the greater part of his cost of uncertainty bearing and at the same time to make a profit". The insurer makes a profit because "he has become an uncertainty bearer in the place of the persons he insures, who now include their insurance premiums among their ordinary expenses".<sup>1</sup> As has been shown before, the essence of insurance is the grouping of risks in order to diminish them so that they should be covered by insurance reserves.<sup>2</sup> Profit-making is not so much a reward for taking over risks, as for the establishment of an organisation for combining and diminishing them to a coverable proportion.

The general character of insurance activities, which is collective to a very great extent, does not justify the conduct of the business as a profit-making enterprise. Even the defenders of profit-making insurance have admitted that the part of the entrepreneur in insurance business is a very special one.<sup>3</sup> The solvency of the business of the insurer depends not only on his "being able to predict his aggregate losses with sufficient accuracy to quote premiums"<sup>4</sup> which will cover them; he must also see that each particular insured should contribute to the total fund out of which losses are paid as they accrue, an "amount corresponding reasonably well with his real probability of loss, *i.e.* that he is bearing his fair share of the burden".<sup>5</sup> But if every "insured himself must bear his share of the burden" must insurance be organised on profit-making lines? For what service do the shareholders receive their dividends? Insurance business is conducted by trained actuaries and an army of agents and managers, employed

<sup>1</sup> *Ibid.*, p. 38.

<sup>2</sup> Weston, *op. cit.*, pp. 257-8.

<sup>3</sup> Rohrbeck in the *Festgabe fuer A. Manes*, p. 63: It does not matter in which form private insurance is organised, whether as a Limited Company or Mutual Society, or Public Institution, "it is always from the sociological point of view only a *distribution centre* in regard to the insured."

<sup>4</sup> Knight, *op. cit.*, p. 246.

<sup>5</sup> *Ibid.*, p. 246.

by insurance institutions who could work as well for the co-operatively self-organised policy-holders, as they do for the shareholders of the capitalist insurance companies.

Under such circumstances it is only natural that a serious investigator should put the following questions about the future of profit-making insurance: "Is insurance by its very character a business from which individuals should be permitted to make profit in the economic sense of the term? Or is it a business of such social importance that its costs to those whom it serves should be prime costs?" In other words "should not the outlay for the service be limited to wages for those who are employed to conduct the business of insurance?"<sup>1</sup> The reply to this question is, that only the ignorance of the insured and their inaptitude for collective action can be taken as the real explanation of the present predominance of profit-making institutions in the sphere of insurance activities. The principles and practice of provident insurance can find its best expression in an insurance organisation formed by the insured for the satisfaction of their needs. Co-operative insurance is the best method for the organisation of popular insurance and the following chapters will deal with its theory and practice throughout the world.

<sup>1</sup> Gephard, *Principles of Insurance*, p. 132.



## CHAPTER III

### MUTUAL INSURANCE

#### I. ORIGIN

THE term "mutuality" is used in economic literature in two different senses: first as a method of distribution of income, and secondly as a method of joint guarantee. In the first sense it deals with the distribution of income over a given period of time. Pure mutuality effects such a transfer of income between the members in each year, says Pigou,<sup>1</sup> "that the deviation of collective consumption in each year from average collective consumption is spread evenly among them". "By saving collectively instead of individually, a group of people can greatly lessen the amount of saving that is required, in order to reduce the variability of the representative man's consumption in any given degree. The combination of the method of mutuality and the method of saving is commonly known as *Insurance*."

As a method of joint guarantee, mutuality was an almost universal principle in the mediæval guilds, in the same way as it underlies modern mutual insurance.<sup>2</sup> The members of a group guarantee jointly that if any of them suffers a disaster, he will receive a certain sum of money to help him to meet the loss. Mutuality in this second sense exists only in the few spheres of economic activity,<sup>3</sup> in which joint guarantee is usually combined with saving. Insurance is the most striking example of such a combination, and is evidenced by the fact that mutual insurance companies

<sup>1</sup> Pigou, *Wealth and Welfare*, pp. 408-10.

<sup>2</sup> Seligman, *Principles of Economics*, Vol. I, p. 602; Willet, *op. cit.*, p. 96.

<sup>3</sup> Manes has even tried to argue that mutuality exists only in insurance (*Versicherungswesen*, Vol. I, p. 76), but finally even he had to admit that it can also be found in the sphere of credit (see *Versicherungswörterbuch*, p. 618). See also Ange Larille M., *Syndicats et Co-operatives Agricoles*, pp. 71-2.

often accumulate savings more efficiently than pure popular saving institutions, because the rule of regular periodical subscriptions makes saving an obligation and a habit.

The term "mutual insurance" is applied to a great variety of institutions, which are widely distributed throughout the world and differ considerably in their activities and form of organisation. It is not easy to analyse the nature of mutual insurance owing to the fact that the legal forms of mutual institutions are numerous and varied. Some authors, as Manes for instance, deny the importance of the legal form of mutual organisations, and argue that from an economic point of view this legal aspect has no significance; the reason for organisation is always either profit-making or mutuality.<sup>1</sup> Wagner also insists that all insurance is built on the principles of mutuality (or association) and that there is therefore no difference between the various systems of insurance. He argues that the various "Systems" are only different legal forms for expressing the same principle of mutuality.<sup>2</sup> This erroneous view is due to the superficial similarity of method of the different systems of insurance organisations. Before discussing, however, the real difference between mutual and other forms of insurance activities, it is necessary to consider first the origin and development of mutual insurance.

Mutual insurance originated at some time in the past from those social and communal instincts of man which from time to time have driven individuals to co-operate for the furtherance of their common interests. There is a considerable controversy in regard to the beginnings of mutual insurance. It can be traced back in Germany, according to Manes, to the fifteenth and sixteenth centuries, where mutuals were first formed in order to insure against cattle epidemics or against dangers of fire and later against

<sup>1</sup> Manes, *Versicherungswesen*, pp. 291-2. See also Manes, *Versicherungswesen*, Vol. I, p. 4. Also *Handbuch der Staatswissenschaften*, Vol. VIII, pp. 627-8.

<sup>2</sup> Wagner, *Versicherungswesen* in Schönberg's *Handbuch der Politischen Oekonomie*, Vol. II, p. 360.

the death or illness of the breadwinner. Compulsory mutual insurance was started in Germany in the beginning of the eighteenth century (*Feuerkassen*) as insurance against fire and later included also cattle and hail insurance.<sup>1</sup> Gierke, on the other hand, considers that the first real mutual insurance society was started much later than the fifteenth century: he points out that only in the eighteenth century (in 1726) was the first real free and independent mutual insurance society established in Würtemberg: it was re-organised in 1754 into a Regional (*Landes*) Mutual Society.<sup>2</sup> Schmoller traces back the first mutual societies not to cattle insurance, but to urban fire insurance. He points out that such societies were established by house-owners in London and Paris as early as 1530 and 1545. In some towns of Northern Germany fire guilds had also been organised during the period between the fifteenth and seventeenth centuries. In some local villages of the Vistula district mutual charitable societies were organised from 1623 to 1670 to help the population against the failure of crops, loss of cattle and fire.<sup>3</sup> But only the second and third decades of the nineteenth century have witnessed the establishment of large private mutual insurance societies, such as the Gotha Society which was started by the merchant Arnolds in Gotha (Germany). This and other societies had built up, in competition with capitalist companies, an efficient organisation formed on proper commercial lines, similar to that of their rivals. The experience of the Gotha Society was utilised in defining the legal position of mutual societies in Germany which was codified by the law of May 12, 1901.

In England the pioneer of mutual insurance was the Amicable Society formed in 1705 when "certain gentlemen, tradesmen and others" entered into a "voluntary society". In 1706 they secured a charter. Membership was at first

<sup>1</sup> Manes, *Versicherungsllexicon*, pp. 617-18. Also Philippowich, *Grundriss der Politischen Oekonomie*, Vol. II, p. 427.

<sup>2</sup> Gierke, *Rechtsgeschichte der deutschen Genossenschaft*, Vol. I, p. 1055.

<sup>3</sup> Schmoller, *Grundriss der Allgemeinen Volkswirtschaftslehre*, Vol. II, p. 391.

limited to a total of 2,000, each of whom, according to one writer, contributed a small sum (£7 10s.) towards the "joint stock" plus a quarterly premium. The sum payable at death varied according to the actual mortality incidence of the society, a practice which contributed to the minimisation of the possibility of disaster. The possession of a royal charter was an invaluable asset in establishing ample confidence. Apart from the credit of official recognition, the charter won support for the society by limiting the liability of members to their actual agreed contributions. The Amicable Society survived until 1866, when it was amalgamated with the Norwich Union Life Office.<sup>1</sup>

In Great Britain the main representatives of mutual insurance are the Friendly Societies. Their origin is considered by some authors<sup>2</sup> to "be lost in antiquity". But one thing is certain, that they were in existence long before 1793, when they were first subjected to legislation. The activities of the societies at this period were mainly social and ceremonial, but they accorded to their members mutual assistance in cases of death or sickness. At present mutual societies are governed by legislation passed at the end of last century (1896) with several amendments resulting from Industrial Assurance Acts (1923, 1927, 1929). The main benefits which these societies accord to their members are at present: sickness, death, annuity, endowment, maternity, distress, unemployment and medical benefits.<sup>3</sup> At the end of 1933 the total membership of the societies, including

<sup>1</sup> See Pittman's *Dictionary of Life Assurance*, pp. 312.

<sup>2</sup> See Brown and Taylor, *Friendly Societies*, p. 1, also for Bibliography.

<sup>3</sup> The Chief Registrar of the Friendly Societies gives the following distribution of societies (3,123) and members (4,892,990) in each branch of activities: sickness benefit societies, 1,812 societies with 3,371,603; death and burial, 329 with 324,499; widows and orphans, 38 with 23,782; medical, 66 with 146,999; annuity and pensions, 77 with 102,603; accident, 16 with 122,124; endowment, 14 with 108,883; institutional treatment, 10 with 216,431; shipwreck, 7 with 497; miscellaneous, 88 with 248,505; and juvenile, 666 with 207,122 members. See *Report*, 1935, p. 46.

branches, was 7,811,561.<sup>1</sup> The activities of these societies in 1933 can be seen from the following table.<sup>2</sup>

	<i>Societies without Branches.</i>	<i>Orders and Branches.</i>	<i>Total.</i>
Number of societies . . . . .	3,123	17,434	20,557
Number of members . . . . .	4,892,990	2,918,571	7,811,561
Yearly sickness pay . . . . .	£2,676,989	£2,787,638	£5,464,627
Sums paid at death . . . . .	£831,544	£611,444	£1,442,988
Other benefits . . . . .	£4,146,170	—	£4,146,170
Total Funds . . . . .	£73,808,436	£51,309,282	£125,117,718

It is interesting to note that in 1922 the funds of the societies amounted to £76,306,021 and in the next twelve years this figure has grown to £125,117,718. Amongst the societies five are specially prominent.<sup>3</sup>

The Friendly Societies are composed of a number of different types. The largest single group is that of the affiliated orders. They are federated organisations composed of local lodges each of which is separately registered under the Friendly Societies Act. They are independent units managed by their elected officials, and are federated in district and national organisations. The member is insured within the lodge which receives contributions and pays benefits. The death benefits are frequently re-insured with the district lodge or the central fund which may be supported of by levies or by fixed contributions. There is a marked tendency in recent years for greater centralisation.

Next in importance to the affiliated orders are the centralised societies. The administration in these societies is

<sup>1</sup> See *Report of the Chief Registrar of the Friendly Societies, 1935*, Part 2, p. 46.

<sup>2</sup> *Ibid.*, pp. 46-7.

<sup>3</sup> *Ibid.*, p. 42. These societies are :

	<i>Members.</i>	<i>Funds (in £).</i>
The National Deposit Friendly Society . . . . .	1,229,810	9,544,531
Independent Order of Oddfellows . . . . .	741,980	22,377,114
"    "    "    Rechabites . . . . .	593,218	4,104,551
Ancient Order of Foresters F.S. (O) . . . . .	546,490	14,266,409
Hearts of Oak Benefit Society . . . . .	428,294	12,115,788

entirely in the hands of the Central Office, the members of which are elected at yearly delegate meetings. The membership is organised in districts, which elect delegates. The societies employ local agents. The largest of these societies is the Hearts of Oak Benefit Society. The effective supervision of sick members is more difficult in centralised societies than in societies built on local lodges, but centralisation has various other advantages.

The third group is formed by the Collecting Friendly Societies, subscribing a considerable portion of industrial assurance. The larger collecting societies operate throughout the whole country in the same way as the industrial assurance companies, but many of the smaller societies confine their operations to a limited area. The management of these societies is very similar in principle to that of the centralised societies. The members of the Committee of Management may be elected for a term of one or more years but very rarely fail to secure re-election at the expiration of term. In many of these societies, the right is given to the agent to nominate his successor, who must, however, be approved by the Committee of Management. This right of nomination is of considerable financial value and the practice of selling agency-books to nominees constitutes the "Book interest".<sup>1</sup> In 1935 155 collecting societies had issued 20,575,025 policies for industrial assurance and accumulated funds amounted to £61,461,130.<sup>2</sup>

A special group is composed by the deposit and dividing societies. There are 90 deposit societies with 1,820,427 members and 716 dividing societies with 404,499 members. The characteristic feature of these societies is that reserves calculated on actuarial basis are not accumulated. At the end of each year (or other fixed period) the excess of income over expenditure—after providing for transfers to special reserve funds, interest on members' deposit accounts, etc.—is divided amongst the members and, according to the type of the society, credited to their individual accounts or distributed in cash. In the largest deposit society (with

<sup>1</sup> See Brown and Taylor, *op. cit.*, pp. 13-14.

<sup>2</sup> *Report of the Chief Registrar, 1935*, pp. 46-7.

the majority of members) one part of the contribution is paid into the common fund and the other direct into the members' individual account. If the member falls sick, his benefit is drawn proportionally from both accounts. The dividing <sup>1</sup> societies—instead of returning the share of "profit" and crediting it to the members' deposit account—pay it in cash to the members as dividend. The dangers of this method are quite evident. The Friendly Societies have made a great contribution to the improvement of the conditions of the life of the working classes in this country.<sup>2</sup>

The development of mutual insurance in the U.S.A. also goes back to the eighteenth century. The oldest insurance company in the United States was "The Philadelphia Contributionship for the Insurance of Houses against loss by fire". This was a mutual insurance company organised by Benjamin Franklin and his neighbours in 1752. Some of the existing mutuals in the U.S.A. have a long history behind them. Reports concerning the 1809 mutuals in existence on December 31, 1928, disclosed the following remarkable record: there exist twenty-one companies organised between 1751 and 1830 with insurance in force amounting to \$910,537,892. One hundred and sixteen companies were organised prior to 1855 and have business in force of \$6,143,300,083; 743 companies were organised prior to 1880 and their business in force was \$15,869,729,581; 1,501 companies were organised prior to 1905, with subscribed policies amounting to \$29,541,771,012; 1,809 companies

<sup>1</sup> Brown and Taylor, *op. cit.*, pp. 14-15.

<sup>2</sup> This contribution was of threefold nature: "First of all it added to the cheer of life at a time when life was exceptionally drab and dirty, alike in the place of work—the factory, and the place of recreation—the public-house. The Fraternal Orders took fellowship out of the public-house and turned it into enthusiasm for a national temperance movement. Secondly, along with the savings bank, it promoted thrift in the important form of provision for misfortune. It was the workers' fine retort to the uncertainties of their life. In the third place, it was along with the co-operative store, a great training in self-government." (See Fay, *Great Britain from A. Smith to the Present Day*, p. 408.)

were organised prior to 1927 and the volume of their insurance operations amounted to \$31,122,304,827. Mutual insurance in the U.S.A. has found its greatest expression in rural activities. Farmers have made extensive use of it, and the success which they have achieved has encouraged them to attempt other enterprises on a co-operative basis.<sup>1</sup> Of particular significance, however, to those interested in the activities of farmers should be the fire and windstorm insurance companies classed as grain dealers' and millers' mutuals, creamery and cheese factory mutuals, engineers' mutuals, as well as the mutual casualty companies, which offer employers' liability protection and other casualty protection. The services of these groups of mutuals are of direct and vital interest to co-operative marketing and purchasing associations as well as to the individual farmer. Apart from the farmers, town-producers in the U.S.A. have also introduced mutual insurance to cover the different risks of their enterprise. In 1870 certain factories which had previously to pay very high rates of insurance, undertook to insure one another through mutual organisations which should have in view not only the adjustment of losses, but the reduction of such losses to a minimum. Its members volunteered to submit to certain rules of construction and operation which should reduce the liability of fire to a minimum. The manufacturers' mutual companies succeeded not only in covering them at far less cost, but actually at a figure which a few years before would have been thought impossible.<sup>2</sup> A very substantial percentage of the big eastern manufacturing plants are insured against fire and windstorm in the so-called "factory mutuals". A variety of mutual insurance enterprises usually characterised as class mutual companies can also be found among such trade groups as grocers, druggists, florists, bakers, and many others.

Mutual insurance has preceded not only private insurance

<sup>1</sup> See Cooper, *American Co-operation*, 1931, Vol. II, pp. 403-4 and 412-13. Also Valgren, *Farmers' Mutual Fire Insurance*, p. 104. See also *American Co-operation*, 1931, Vol. II, p. 395.

<sup>2</sup> Hadley, *Economics*, pp. 385-6.



but also State insurance in its most developed form—that is in the sphere of workers' compensation. Even before any laws were passed in European countries establishing the liability of employers for compensation in case of industrial accidents, mutual sickness insurance societies were to be found practically everywhere. These were of several types: (1) Private mutual societies composed of persons of various occupations; these were usually local with a small membership. (2) Large federated or affiliated societies composed of local bodies and usually operated on the lodge system. (3) "House" societies attached to an industrial establishment or business and frequently supported in part by the employer; membership in some of these was required by the employer, while in others it was voluntary though encouraged. (4) Trade unions which furnished insurance against sickness as a part of their benefit.<sup>1</sup>

In many countries mutual insurance has maintained its position in the sphere of social insurance. On the continent there is a much stronger disposition among employers to co-operate in mutual associations for the purpose of covering their liability under the law. In Denmark where the State exempts the employer or the insurance company, as the case may be, from the burden of investigating claims, fixing the amount of damage, etc., and puts the *onus probandi* on the insured, one large mutual insurance association enjoys a great proportion of the total employers' liability business of the country. In Sweden there are several employers' mutual insurance associations, one of which transacts by far the largest share of the business with the exception of that conducted by the State department.

France has several thousands of such small associations and their operations have been successful. The same may be said of Switzerland, Belgium and Holland, and particularly of Italy, where large mutual associations have been greatly favoured by Governments.<sup>2</sup>

<sup>1</sup> Frankel and Dawson, *Working Men's Insurance in Europe*, p. 147.

<sup>2</sup> *Ibid.*, *op. cit.*, p. 28.

## 2. CLASSIFICATION

From the brief account of the various mutual insurance institutions given in the preceding pages it can be seen that there is a great need for their proper classification. This classification presents considerable difficulties, not only because of the great number of different types, but also because the mutual insurance societies are formed by different classes and groups of the population which have built them up for different purposes and from different motives.

Mutual insurance institutions may be classified in various groups, *e.g.* (a) private or public, (b) urban or rural, (c) wage-earners or independent producers, (d) small or big societies, (e) general or special societies and (g) assessment-plan or advanced-premium-plan societies.

(a) The fact that mutual insurance can be organised either on a voluntary or on a compulsory basis results in the division of mutual insurance in two groups: private or public (State and municipal). The former is organised by the insured members themselves in accordance with mutual principles, while the latter is formed by public authorities for the population of a certain administrative district.

(b) Urban or rural environment is another important basis for the classification of mutual insurance institutions, because the mutual societies operating in the country cover risks different from those of the urban mutuals and have to be organised and conducted accordingly.

(c) Private mutual societies were often formed, especially in the earlier days of the guilds, for humanitarian motives and charity. At present mutual insurance institutions are established for the satisfaction of certain economic needs of their members, the social status of whom is of very great importance, because it determines the nature of the activities of the societies. As can be seen from the preceding pages, every class of present-day society—wage-earners, farmers, landlords and manufacturers—has used mutual organisation for the satisfaction of its insurance needs.

(d) The difference in social status of members resulted in

the establishment of two main types of mutual insurance societies: the big mutual companies, which have been a great success in Germany and the small local occupational and/or fraternal societies. This division will have to be discussed in some detail when we deal with the question of organisation. It is important not to forget that the small local mutual societies are still actuated by a great social motive, serving mainly the working population in town and country. The writers describing the mutuals of these groups in U.S.A. rightly indicate that this type of mutual insurance has been sponsored by people who would fight for a cause and who would carry on the work of relief and prevention even though no salary were attached to their office.

(e) The sphere of operations forms another important basis for classification and accordingly mutual societies can be divided into general and special. The first insure their members against different kinds of contingencies—in regard to fire, life, burglary, motor-car, etc. The second operate in one specific branch of insurance only, *e.g.* livestock, hail, fire, etc.

The general mutual insurance societies, which cover by one levy different types of risks, are often exposed to considerable danger. The widely developed English type of mutual insurance—the Friendly Societies and the Benefit Clubs—operate as general societies and pay simultaneously illness, death and old-age benefits. The shortcomings of this type of mutual insurance were brilliantly emphasised over a hundred years ago by David Ricardo.<sup>1</sup>

<sup>1</sup> When looking through the English literature of mutual insurance one finds interesting criticism published by David Ricardo of the popular form of mutual insurance in Great Britain known as Benefit Clubs. Ricardo states so clearly the shortcomings of mutual insurance of this type that it seems worth while to quote his criticism in full: "At a later period attempts have been made to extend to the lower classes the advantages of Insurance by the establishment of Benefit Clubs, with the view of securing to them the objects which their different circumstances in society require. These appear to be, first, a maintenance during inability to work, from illness. Secondly, a sum of money to be paid, upon a death of a member, to

(g) In accordance with the method of collecting the levies and covering losses there are two classes of mutual insurance societies: the assessment mutual and the advance premium mutuals. This point is of fundamental importance and must, therefore, be dealt with in detail. Under the assessment plan all members contribute a specified sum agreed upon in advance, in case of death, sickness, unemployment or some other misfortune occurring to a member. This method has many weak points as compared with insurance. The first weakness of the assessment plan is that its premiums are not based on the ascertainable degree of risk. As Ricardo<sup>1</sup> writes:

The difference of premium, which ought to be paid to provide for funeral expenses between the ages of eighteen and forty-five, is nearly as two to four; and, as regards a provision for old age, the difference between the same ages is as eleven to thirty-four; from this statement, the injustice of compelling persons of different ages to pay the same premium will be fully apparent.

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the surviving relatives or friends, to defray the funeral expenses in a manner suitable to the station in life occupied by the deceased; and thirdly, a provision during old age. By carrying these purposes into effect, much disappointment has been experienced and great unintentional injustice has been done. The leading cause of this evil may be caused by the fact that the three objects above specified have been combined in one account, and have been attempted to be secured, by one payment for all ages, between eighteen and forty-five. But the fact is, that the two latter objects depend on natural results which cannot be affected by subterfuge or deception; and that consequently there are, with respect to them, data for accurate calculation. . . ." On the other hand in regard to illness, a great deal depends on the honesty of members, and Ricardo remarks "notwithstanding the risk of imposition from this source, I cannot but condemn the regulation, which I understand is often made of requiring an oath to be taken by the party applying for relief; a regulation quite inconsistent with the nature of a society, which professes to be established upon the ground of mutual assistance and disinterested liberality". (See *Some suggestions for the improvement of Benefit Clubs and Assurances for the lower classes founded on the reasoning of a petition presented by the late D. Ricardo, Esq., to the House of Commons for the Author*, London, 1824, pp. 3-4.)

<sup>1</sup> See *op. cit.*, p. 6.

A life insurance society operating under the assessment plan must admit regularly and constantly a large number of young members. If this were not the case the assessment would increase as members grew older, which would discourage young men from joining the society.

The second shortcoming of the assessment method is the absence of reserves. Such societies are not disposed to establish and to hold adequate reserves, because it adds to the *current* cost of insurance for the membership. This makes the position very serious when many accidents occur simultaneously. The question of insurance reserves which are the foundation of solvency is of very great importance in mutual insurance. There are many fake mutual societies which have used the cloak of mutuality in order to avoid the legal restrictions which constrict ordinary insurance activities. Such societies describe themselves as co-operative assessment societies, and their chief characteristic is that they offer life insurance at a lower rate than is economically possible for the regular companies which are bound by law to maintain a certain proportion of reserves. These societies have no intimate knowledge of their members which is the mark of the true mutuals, and they lack the legal reserves of the commercial companies.<sup>1</sup> Many of them have failed and the numerous scandals in which they were involved have been harmful to the co-operative and mutual insurance movement.

The third weak point of the assessment plan—which is a great permanent danger to the societies working on this plan—is the lack of regularity in the cost of insurance. The societies seek various devices to overcome this difficulty and the accumulation of reserves, however modest, seems the best way of steadying the position. Reserves give the mutual insurance society a means of regulating the cost of insurance, making any one five-years' cost about the same as any other five years', which is not only more equitable for the insured but is also a greater inducement for holders to renew their policies.

Under the advance premium plan the estimated premium

<sup>1</sup> Nicholson, *The Annals*, March, 1917, p. III.

is paid in advance for one year. If it is not enough to cover the losses and expenses an additional premium has to be paid by members. If there has been an overcharge, members receive back a dividend. It is quite obvious that the advance premium plan remains open to the same criticism as the assessment plan. In order to overcome these difficulties some mutual societies offer, in addition to their regular mutual policies carrying assessment liability, fixed premium policies at a rate somewhat above the average cost to the regular mutual members. This deviation from the regular mutual plan is usually justified on the ground that certain individuals in the business territory of the company prefer to pay the somewhat higher fixed premium charges in order to avoid all assessment liability.<sup>1</sup>

### 3. ORGANISATION

The similarity between mutual insurance and mutual credit is most marked in their methods of organisation. In mutual insurance, as in mutual credit, there are two main types of local societies: small local societies, and large societies, operating in wider areas. The small societies were first in the field of rural insurance, and like credit unions spread to occupational and professional groups.

The third type—a large (often national) society with local branches—combines some elements of the two other types. The advantages of small societies confined in scope to a certain locality or to a certain industry lie in the acquaintance of the members with each other, the restricted area in which they operate and the care with which the risk can be determined and the policies issued. This intimate relation between policy-holders is very important. Furthermore, it permits specialisation: since there is a comparatively narrow field to cover, intensive study of safety conditions, claim settlements and other features which affects insurance operations is made possible. The moral risk, so important in all kinds of insurance, is very small in mutual insurance societies of the first type, thanks to the intimate mutual knowledge of their members, which

<sup>1</sup> See Valgren, *Farmers' Mutual Fire Insurance*, p. 101.

prevents the issue of policies to dishonest or questionable people, and also the overvaluation of property. It prevents also dishonest practices which not infrequently occur in large insurance corporations which have their headquarters elsewhere. A local mutual insurance society can develop considerable preventive measures. It can ensure that its members use standards of construction and take other precautions which will tend to decrease the risk of misfortune. Elimination and diminution of hazards ensure reasonable cost, and cheapen the operations of the local societies.<sup>1</sup>

Small local insurance societies have, however, great disadvantages. From their limited field of exposure an adverse selection of risks may result. Another danger is that in case of a calamity striking the whole locality, the local society may be very seriously affected. The third danger which confronts the local mutual societies and which is often used as an argument against them by their competitors, is that they are too small to carry the larger farm insurance in their territory without risking a wide variation in their annual assessments. This argument is effective, because to a considerable extent it is based upon fact.<sup>2</sup> These dangers can be met in two ways. The first is by closer working agreements or federation with other mutual insurance societies for the purpose of re-insurance and for supplying services which would be impossible for a single society to provide. All this, however, can be accomplished without destroying the identity of the local organisation.<sup>3</sup> It is, therefore, wrong policy on the part of local mutual insurance societies not to join their federations, State associations or regional re-insurance institutions. As a final example of false economy or negligence may be cited the fact that because of the necessary fees involved a large number of farmers' mutual companies allow themselves to be deprived of membership in State Associations, or

<sup>1</sup> Powell, *Co-operation in Agriculture*, pp. 311-315.

<sup>2</sup> Valgren, *Farmers' Mutual Fire Insurance*, p. 86.

<sup>3</sup> Keenly, *Insurance Needs of Co-operatives, American Co-operation*, 1931, p. 398.

conventions of farmers' mutuals, as well as of membership in the National Association of mutual insurance societies. Such local societies forgo a share in the benefits of insurance knowledge and the exchange of valuable experience, and also leave to others the important duty of promoting desirable insurance legislation.<sup>1</sup>

Re-insurance, which is the best way of strengthening local insurance societies, takes two main forms. One involves the ceding to the re-insurance company of a part of each of the larger risks, and for each of them a separate re-insurance contract is concluded. The other method involves a blanket re-insurance contract under which the re-insurance company not only shares the liability of all larger risks already on the ceding company's books, but in addition guarantees the latter against the payment of a total of losses during the year in excess of a certain percentage of its average losses for a series of years.

The second group—the large mutual insurance societies—avoid many of the dangers of small societies. But when they operate over wide areas, they begin to lose in safety and strength. The personal contact of one member with another is weakened; the risks cannot have the same individual examination that local mutuals apply; the powers of the association have to be delegated to employees or agents; the moral hazard increases; and the assessments are likely to grow in number and magnitude.<sup>2</sup>

In insurance activities, as in other spheres of business, a certain process of assimilation is going on between different types of organisation and activities. Mutual societies acquire more often the form of limited companies. They sometimes insure non-members at fixed premiums without assessment plans, or re-insure these risks by concluding re-insurance agreements with other societies. The movement for concentration and fusion among societies grows simultaneously, but this movement is counterbalanced by the formation of new mutual companies. On the other hand there is a marked tendency to mutualisation in the private insurance companies. This tendency is very marked in

<sup>1</sup> Valgren, *op. cit.*, p. 85.

<sup>2</sup> Powell, *op. cit.*, p. 313.



U.S.A. where several large companies have been mutualised whilst other companies are discussing plans directed towards the same end. The movement is also gaining ground in other countries. The mutualisation of private companies reflects itself in several ways. Some companies place a large proportion of their surplus income at the disposal of the policy-holders, and not at the command of the shareholders, who receive only fixed dividends; other companies allow policy-holders some representation in the management. Gephard<sup>1</sup> is right when he suggests that the mutualisation of the profit-making companies is the best precaution which they can take if they want to avoid nationalisation of the insurance business by the State.

The question of organisation of a mutual company has a direct bearing on the cost of its services which incidentally is relatively lower than in other insurance organisations. In many branches of insurance the amount of loss can be considerably reduced by proper care and attention exercised by the insured members. In mutual insurance societies this attitude is very helpful: in fire insurance, for example, loss is minimised by guarding against over-insurance, over-valuation<sup>2</sup> and by declining to insure persons of questionable character, but chiefly by the helpful attitude of the insured towards a company constituted by his friends and neighbours. This attitude is in marked contrast with the careless and reckless if not unfriendly attitude frequently assumed towards a larger organisation in which the policy-holder feels no special obligation and interest.<sup>3</sup>

In life insurance, the Friendly Societies in England and the Fraternal Societies in the U.S.A. have had a considerable measure of success in reducing expenses of management and have sometimes been able to extend to members a variety of benefits which the joint stock companies could not have

<sup>1</sup> See Gephard, *Principles of Insurance*, Vol. I, p. 132. "It is suggested that this is a tendency which should be encouraged, if necessary by legal enactment, if life insurance is to continue as a business for private enterprise and not one for State conduct."

<sup>2</sup> Myrick, *How to Co-operate*, p. 169.

<sup>3</sup> Compare Valgren, *op. cit.*, p. 77.

undertaken without serious danger of abuse.<sup>1</sup> The elimination of the agency system by many mutual insurance institutions is another factor in the reduction of expenses. Economy and a good deal of honorary work are the third factor in keeping low expenditure and cost in the small mutual societies, especially rural ones. The salaries paid in genuine mutual societies are as a rule very modest. Commission for securing new business and survey fees have similarly been reduced to a minimum. Rents, rating services, legal fees and advertising expenses have been either negligible or non-existent. These items amount to a very considerable proportion of the cost of fire insurance in the commercial companies. The expenses in the farmers' mutuels have often been reduced in the U.S.A. to 20 per cent. of the total cost.<sup>2</sup>

The reduction of costs in the rural mutual insurance institutions in the U.S.A. is even greater than in mutual life assurance societies. The cost of farmers' mutuels is about half that of competing ordinary companies. General and class mutuels charge from 50 to 75 per cent. of the competing rate and with this they cover their losses and expenses and build up reserves, which are often relatively higher than those of competing companies.<sup>3</sup>

#### 4. ELEMENTS AND DEFINITION

It is time now to analyse the main elements of mutual insurance. The most important of them has already been indicated by emphasising that a mutual insurance company has no capital stock: mutualisation means "retirement of

<sup>1</sup> Hadley, *Economics*, p. 386.

<sup>2</sup> Valgren, *op. cit.*, pp. 77 and 83. There is even the danger that reduction of expenses may sometimes turn out to be a mistaken economy, especially in the case of salaries paid to the officers of the companies. An economy in this direction is often ill advised, for the difference in losses between well and badly managed mutual insurance companies is so considerable that the saving in expenses of management may be a mere trifle in comparison.

<sup>3</sup> Cooper, *American Co-operation*, 1931, Vol. II, p. 413. See also Valgren, *op. cit.*, p. 99.

capital stock".<sup>1</sup> But if this is the real characteristic of mutual insurance are there proprietary interests in it? Opinion is divided on the point. Some authors answer it in the affirmative, because they consider that in mutual companies policy-holders automatically become stockholders.<sup>2</sup> Others rightly oppose this view and argue that a strictly mutual company has no share capital and no shareholders.<sup>3</sup> A purely mutual company is owned by the policy-holders, and the board of directors responsible for its management is elected by them and holds office at their authority. The absence of capital results in the fact that legally no one has a proprietary interest in mutual insurance. The absence of proprietary interest is one of the main features distinguishing genuine mutual insurance from other types of insurance organisation.

"Non-profitmaking" is the second characteristic of mutual insurance. In mutual insurance there is no share capital and no dividends on capital. The income is used to cover the cost of operations and to pay benefits. The surplus, if any, is returned proportionally to policy-holders as bonuses which may take the form of cash payments or credits to be deducted from premiums payable or of accumulated additions to the surrender values of the policies. Dividend in a strictly mutual company is a refund of an overcharge and each policy is a participating policy. Some mutual societies do not distribute the whole surplus to the policy-holders, but use part of it to form reserves for cases

<sup>1</sup> Hardy, *Risk and Risk Bearing*, p. 257. "Mutual companies have no stock. Their surplus as well as their reserves belong to the policy-holders, the difference being that the reserve is an aggregate of individual reserves, each of a definite amount, while the surplus is a single fund, the joint property of the entire group of policy-holders. The surplus alone performs the function which in stock companies is performed by the combined capital and surplus. It is the usual practice in organising mutual companies to start with capital stock which is to receive a fixed rate of return, if earned, and to be retired by repayment to the stockholders, when the surplus becomes sufficiently large to render such return safe."

<sup>2</sup> Patterson and Scholz, *Economic Problems of Modern Life*, pp. 76-7.

<sup>3</sup> Gephard, *Principles of Insurance*, Vol. I, pp. 127-8.

of emergency. Such collective reserves, which belong to the society as a whole, introduce into the mutual system the most important feature of co-operative organisation. They prepare the ground for the transformation of the mutual body, the union of present members, into a permanent institution, into a co-operative society.

The third feature of mutual insurance is the great part played in it by the personal element. In a mutual society the insured themselves form the insurance enterprise and are responsible for its success or failure. This helps to eliminate to a great extent the moral hazard, and in this respect mutual insurance differs favourably from capitalist insurance.

The nature of the relations between the member and the society is the final and probably the most decisive test in mutual insurance. There is no permanent relationship between the member and the society. They do not build a joint enterprise, but unite only for temporary aims. If the member does not renew his insurance his membership lapses automatically. The member is thus connected with the mutual enterprise in so far as he remains a policy-holder. He has no permanent relationship with the society, as the shareholder in co-operative or capitalist institutions who remain members, if they retain their shares, even if they do not use the services of the society. The German Law strongly emphasises this peculiarity of mutual insurance.<sup>1</sup>

There is no permanency in the pure mutual societies. They are not business enterprises, but unions of persons connected by a contract of mutual service. The connecting link between them is the payment of contributions as remuneration for services to be rendered. The contract ends when the special service or series of services has been performed. The renewal is periodical and depends each time on the will of the contracting parties. The parties themselves are constantly being re-arranged in so far as, and as often as, any of the participants consider it to be to their own advantage to enter or to leave the society.

Taking into consideration all the characteristics of mutual

<sup>1</sup> Manes, *Versicherungsglossar*, p. 618.

insurance, the following definition may be suggested: a mutual insurance society is an unrestricted union formed by the insured themselves who undertake to pay on an agreed scale periodical contributions for the purpose of covering losses sustained by some of them in the cases of stipulated future contingencies, such losses being pro-rated periodically among all members.<sup>1</sup> Mutual insurance may be regarded as an under-developed form of co-operative insurance. Both systems have a good deal in common in regard to their aims, but they differ considerably in matters of organisation and methods of operation. The experience of the Baltic countries, however, shows that non-profit-making insurance starting in the form of mutual organisation may in the course of its development acquire all the main features of co-operative insurance. Societies remain on a non-profitmaking basis but continue operating with a share capital and on the system of a fixed premium.

A mutual society passes through the following phases in the process of its transformation into a co-operative society. It starts with pure mutuality—with dividing the actual loss in a case of a contingency among all the members. The next step is to levy amongst members not for every single loss, but for the total losses incurred during a given period of time—usually a year. Improving its methods of operation the society starts to collect the levies in advance, taking as a basis for such payments the levy imposed in the previous year. In the next phase the society calculates its losses on an average experienced during the period of years (usually five years)—and arranges accordingly the yearly payments of its members in advance. When the mutual society has reached this stage of development it is very easy for it to depart from the system of distribution of losses and to pass to insurance—to a system of fixed prepaid premiums calculated on a proper actuarial basis.

But the system of fixed premiums leads to the formation of reserves which are not divided among members, and thus foreshadows the building up of funds, belonging not to the

<sup>1</sup> Compare Manes, *ibid.*, p. 618. Also Philippowich, *op. cit.*, Vol. II, p. 457.

body of present members but to the society, as a legal entity. A mutual insurance society, however, which operates with a capital or with indivisible reserves, on the principle of fixed premiums and fixed policies, and on a non-profitmaking basis, is a co-operative insurance society: mutuality and capitalisation thus form the co-operative entity. Mutual insurance is the embryo of co-operative insurance and if conducted on proper lines can grow and develop into co-operative insurance of an effective and progressive type.

What is the measure of success attending mutual insurance? Are its activities increasing or decreasing? It is difficult to give a uniform answer for this question in regard to various countries. But it may be considered that, in general, the urban mutual societies<sup>1</sup> are rather losing ground in competition with the private companies, but the rural ones are holding their own. It must be remembered that the marked success of profitmaking insurance in its competition with the mutual societies in different countries and especially in the U.S.A. is a result of the new methods which they employ. The profitmaking companies attack the mutuals in two quite different ways. On one hand they rely in this struggle on a very wide net of agents and on a most efficient advertising machine and publicity. On the

<sup>1</sup> In the U.S.A. an actual decline in the total amount of fraternal insurance in force is noticeable. Thus, while at the close of 1916 fraternal societies had in force insurance for \$11,000,000,000 ten years later their books showed a decline to \$10,300,000,000. When the increase of the population in the past war period is considered the significance of these figures becomes greater than when taken at the face value. During the same period, life insurance effected by the so-called old-line or legal-reserve companies has increased by leaps and bounds, the totals in force on the corresponding dates being \$25,000,000,000 and \$79,000,000,000 respectively. Furthermore, during the period 1910-1920 the fraternal societies subscribed about 33 per cent. of the total amount of life insurance underwritten in U.S.A. whereas in the following decade they have subscribed but 15 per cent. of it. It is clear, therefore, that the decline in fraternal insurance has not been due to a fall in the demand for life insurance, but to conditions within the fraternal system itself. (See Knight, *The Annals of American Academy*, March, 1927, p. 99.)

other, the "mutualisation" of the most important and best-known insurance companies in the U.S.A. and other countries is aimed to put these companies in the eyes of the policyholder on the same footing as the real mutuals. It becomes very difficult for mutual companies to hold their own against such a competition. If mutual insurance is not to be beaten, it must find new methods of working and organisation. It must reorganise its activities along co-operative lines, introducing by voluntary effort and advanced legislation the necessary alterations in its articles of association and methods of operation. It must join hands with the existing co-operative insurance and credit organisations and build up together with them in each country a national system of popular insurance on non-profitmaking lines. Mutual insurance institutions must make an end of their isolation and take a new line of development in the direction of co-ordinating their forces and organisation nationally and internationally.

## CHAPTER IV

### CO-OPERATIVE INSURANCE

#### I. CO-OPERATION AS A SPECIAL FORM OF ECONOMIC ORGANISATION

CO-OPERATIVE insurance is one of the most difficult branches of the science of co-operation and no attempt has yet been made to formulate its theory or to analyse its practical activities. Such theoretical investigation is lacking although co-operative insurance institutions have been in operation for nearly three-quarters of a century. The bulky insurance literature refers only incidentally to co-operative insurance and then the latter is usually confounded with mutual insurance to which more space and attention is devoted. Mutual and co-operative insurance have been considerably confused even by authoritative writers on the subject, who make indifferent use of the terms co-operative and mutual.<sup>1</sup> The special literature on co-operative insurance is limited to a few booklets and pamphlets describing the history and activities of co-operative insurance institutions in various countries (Germany, Sweden, etc.), but none of these is concerned with a comprehensive analysis of the subject. Nor is the case better with the general co-operative literature which deals, apart from two or three notable exceptions, with the theory of co-operative insurance in footnotes and passing remarks only.

<sup>1</sup> Two examples will suffice: Nichols (*The Annals of American Academy*, 1917, p. 120) characterises the "genuine fraternal societies" as "essentially co-operative bodies having no capital and yielding no profit", entirely forgetting that share capital represents one of the main characteristics of co-operative organisation, and that a "body having no capital" cannot be co-operative. Even Manes is not free of similar inconsistency. In some of his writing he regards mutual societies as the purest manifestation of the co-operative principles in insurance, even if they are not established in the legal form of co-operative organisation. In another part of the same



Confusion in the theory of co-operative insurance is due mainly to two circumstances: first to the manner in which the term co-operation is used in economic literature and secondly to the absence of such a definition of insurance that would be generally accepted. Co-operative insurance more than any other branch of co-operative science has suffered from the dual connotation of the term co-operation. Broadly speaking co-operation in general is a concept of certain widely observable phenomena in economic life such as the division of labour,<sup>1</sup> or the collaboration of labour and capital in production.<sup>2</sup> In the second and more restricted sense, co-operation signifies a particular type of economic organisation. In this sense it will be used in the present study. It is the application of the wider conception of "co-operation" to the activities of co-operative organisations that is responsible for much muddled thought. The misapplication of the term "co-operation" is also responsible for the erroneous idea that every kind of insurance is co-operative.

Apart from these theoretical confusions many mislead-

book, Manes, however, puts forward a different view by saying that "term 'mutuality' expresses more than an association (*Gemeinschaftlichkeit*) or co-operative organisation". (See Manes, *Versicherungswesen*, Vol. I, p. 4. Compare Mittermüller in *Handbuch der Staatwissenschaften*, Vol. VI, p. 281: "Die Gegenseitigkeitsvereine —representieren das genossenschaftliche Prinzip in der Versicherung am reinsten, wenn sie auch nicht in der juristischen Form der Genossenschaft errichtet werden dürfen"; also Philippowich, *Grundriss der Politischen Oekonomie*, Vol. I, pp. 427-8. This inconsistency is often repeated in insurance literature (see Philippowich, *op. cit.*, pp. 323-4. Also *American Co-operation*, 1931, Vol. II, p. 403. H. P. Copper, *Nature and Extent of Mutual Insurance*; Hadley, *Economics*, pp. 385-6; Gephard, *Principles of Insurance*, Vol. I, p. 10; Valgren, *American Co-operation*, 1931, Vol. II, p. 395).

<sup>1</sup> See examples in my *Co-operative Banking*, p. 46.

<sup>2</sup> See Willet, *Theory of Risk and Uncertainty*, pp. 17 and 86. Holyake, *History of Co-operation*, p. 674: "Co-operation is a protection against the competition of civilisation." Rohrbeck, in *Festgabe fuer Alfred Manes*, p. 55; "Competition frees new social relations and leads to conflict or co-operation." Also Hicks, "The Theory of Uncertainty and Profit", *Economica*, p. 176, May, 1931.

ing statements and arguments were recently put forward both in print and speeches in the House of Commons, where the special position of co-operative societies in regard to income tax was discussed.

Co-operative insurance presents the application of co-operative principles to the field of insurance. It is important, therefore, at the outset of our study clearly to demarcate and define the relationship of co-operative enterprise in general to two other main types of voluntary economic organisations—the mutual and the capitalist. It will be well to start with mutual organisation since in this country "mutuality" was accepted as the legal basis for dealing with two different types of economic organisations—the mutual and the co-operative societies. A mutual body, as understood at the time when mutual societies in this country began their activities, was a small group of people whose members dealt only among themselves, without offence to others, allocating its advantages to the individual account of members of the group.<sup>1</sup> It was generally agreed that a mutual body could not make profit out of itself. Legal practice in England has therefore decided that the dividend on purchases in a co-operative store is really a trade discount and ought therefore to be regarded as a cost.<sup>2</sup> Co-operators

<sup>1</sup> Fay, "Co-operators and the State", *Economic Journal*, Vol. XLIII, No. 171, p. 415.

<sup>2</sup> It is interesting to note that the first judgment on this point arose out of a matter of insurance. It was a judgment by the House of Lords (the Styles Case), which held that in mutual trade no profit and, therefore, no liability to income tax arose. This decision was reached in reference to a mutual insurance company, The New York Life, in which the members and the recipients of benefits were identical; and it was extended by analogy to co-operative societies, where in general there is identity between members and purchasers. A similar line of argument is also used in the Report of the Royal Commission on Income Tax (1920), which denies even the existence of "surplus" in co-operative trading. The Report writes: "The so-called 'surplus' on members' purchases is not really a surplus at all: it is the result of a bookkeeping balance made for the purpose of determining *what portion* of the nominal purchase price shall be returned to the shareholder. When that discount or rebate on purchase price has been returned to the purchaser, we are of the

adhered to this kind of argument produced specially for their protection and used it frequently in defence against their opponents, apparently overlooking the fact that this was taking the line of least resistance and that "mutuality" applied in its legally accepted sense can be used to the detriment of the co-operative movement. It is especially easy to "twist" on the question of the size of mutual organisations. In the early days of the movement, when the co-operative store had to oppose the small shopkeeper, none of the competitive parties had much advantage in the matter of size: if mutual and co-operative organisations have to hold their own against the modern gigantic capitalist enterprise, they must be capable of federal expansion. But the term mutuality used in the traditional sense invites the criticism that the co-operative movement which adopts, in the process of its development, the machinery consonant with its new activities thereby loses its co-operative essence. And when the struggle of private traders against co-operative enterprise had taken an acute form, such criticism was used immediately, as the main weapon of attack. In the debate in the House of Commons in May, 1933, this argument was put forward with great emphasis and found full expression.<sup>1</sup>

opinion that the surplus remaining in the hands of the society is a true trading profit. . . . The dividends on purchases are not a distribution of trading profit, but a return of part of purchase price." (See pars. 551-6, p. 120, Cmd. 615.) See also Pigou, *Essays in Applied Economics*, p. 142.

<sup>1</sup> See Hansard, May 22, 1933, p. 776. "I do not think anybody disputes the principle of mutuality in its simplest form. It is quite clear that a man cannot make a taxable profit by trading with himself. You can carry it a little bit farther than that. If a number of people combine together to buy, let us say, a truck of coal, that the saving which each individual may make out of a transaction of that kind cannot be said to constitute a profit which is assessable to income tax. But when you come to these vast organisations, which have been built up to their present size, you are dealing with something in a very different category, something that goes much further than a mere joint purchase or sale by a group of individuals.

These societies have incorporated themselves into a separate legal entity, and the transactions of the members are not merely transactions with other members. They are transactions with this corporate body which has interposed itself into the picture."

The exponents of this view insisted that the principle of mutuality "ceased to apply"<sup>1</sup> to present-day co-operative organisations and it must be revised. When asked why the principle of mutuality should "cease to apply" to the co-operative organisations of larger scale, the critics replied that the co-operative system is no longer mutual, that it has "outgrown" mutuality and that "the co-operative societies nowadays are corporate bodies" separable from their membership, and have to be dealt with accordingly, in such matters as legislation and taxation.

But can a co-operative society be regarded as an "entity" separable from its members? The Royal Commission on Income Tax (1920) replied to this question in the affirmative. It took the view that a registered co-operative society could not be regarded merely as a group of individuals, but as much a separate entity as any other body of persons.<sup>2</sup> Certainly, the "co-operative body" is an "entity", but it is a special kind of "entity". Is not every member a part, and a living part of that "body"? Is not the collective will of the members, as expressed in general meetings, the will of the "corporate body"? It is quite evident that the aim of co-operative organisations is to establish a business enterprise vested with continuity and permanency and not to be dependent on any of its individual members, and this is the fundamental difference between the co-operative and the mutual institution. The ruling of the Court of Appeal that "a company carrying on a social club on the usual mutual principle does not carry on a trade or business"<sup>3</sup> is undoubtedly correct, because in such a case a union of members, and not a business enterprise, is

<sup>1</sup> See Macmillan, Hansard, May 22, 1933, p. 802. "The principle of mutuality is not a religious dogma: it is a fiscal convenience. It is not an eternal verity, but a temporary privilege which was given by Parliament in certain circumstances to certain kind of corporations and clearly there is a point at which this principle ceases to apply. As I understand, it starts in a very small way and may be applicable to very small institutions."

<sup>2</sup> *Report of the Royal Commission on the Income Tax, 1920* Cmd. (615), par. 551, p. 120.

<sup>3</sup> Hansard, May 22, 1933, p. 777.

established.<sup>1</sup> It must be said in addition that in attempting to reduce the differences of mutuality and co-operation to the matter of size and method of local and federal organisation, the critics of co-operative organisation are on the wrong track. A local society, dealing in its trading transactions only with members, can be formally perfect, as a mutual organisation. By adopting a wrong policy, however, it might become quite "unco-operative in spirit"<sup>2</sup> and it is easy to find many such examples of false mutuality (see p. 76). The term "mutual" can be misused in the worst manner and become a cover for vested interests of a small but very "unmutual" group of people.

In recent discussions in the House of Commons an astonishing situation could be seen developing: co-operative societies were not only denied mutuality, but were at the same time invited to regard themselves as ordinary capitalist concerns. This view was put forward very forcibly by the Raeburn Committee which identified co-operative societies with capitalist corporations. It was done on the ground that the individual member had no claim to the undivided surplus in the possession of the legal entity called the co-operative society. The co-operative societies, it was argued, become corporations by registration under the Industrial and Provident Societies Act.<sup>3</sup> The Chancellor of the Exchequer in the House of Commons supported this view when dealing with co-operative taxation, arguing that

<sup>1</sup> Why, then, introduce into debate the idea of a "corporate body"? The reason is simple. If a co-operative society is a corporate body, distinct from membership as a whole, and from each member individually, then the "surplus" (or "overcharge"), which "remains in the hands of the society is a true trading profit" (*Report of the Royal Commission on Income Tax*) and as such it can be and has been taxed. This is what present-day legislation in this country aims at, and the foregoing argument would supply it with a logical basis.

<sup>2</sup> Fay, *Economic Journal*, *op. cit.*, p. 416: "It might make profit out of its employees by paying them an unfair wage, it might adopt an attitude of exclusiveness to its less fortunate neighbours. Such a mutuality would be a social farce: and from the outset the co-operative movement has set its face against such developments."

<sup>3</sup> Compare Fay, *Economic Journal*, *op. cit.*, p. 421.

“ income tax is assessed upon undistributed income because that income is the property of this entity, the company itself ”.<sup>1</sup> In this argument the fundamental difference between shareholding in a profitmaking company and membership in a co-operative society has been evidently entirely neglected. The number of shares of a company is limited, the shareholders are entitled to issue bonus shares to themselves on which income and sur-tax are not payable by them, and the result of successful trading is not only to add to reserves but also to increase the selling value of shares. In a co-operative society there is no limitation to the issue of shares ; there are no bonus shares, there is no increase in capital value of shares. The only sense in which the co-operative society is an independent entity is in respect of its independence of and immunity from, firstly, individual speculative profit,<sup>2</sup> and secondly, particular individual members. Its reserves belong to the membership as a whole and have accrued in the fulfilment of co-operative activities and services. The real argument for the special position of co-operative organisation lies in the social value of co-operative enterprise, in the fact that a co-operative “ entity ” is entirely different in character from other “ corporate bodies ” and in the special aims of co-operative organisations, as it exists for service and not for profitmaking. This of course is also the real reason why it is attacked by private traders and capitalist Governments. It is obviously time, therefore, for co-operative theorists and politicians to discontinue the old use of the term mutuality, the idealisation of small harmless local groups which become lost and helpless in the battle with modern economic giants, and to demand the rights of co-operation, basing such demands on the great social achievements of the movement.

## 2. THE ELEMENTS OF CO-OPERATIVE INSURANCE

In order to define and ascertain the elements of co-operative insurance, let us start with a general definition

<sup>1</sup> Hansard, May 22, 1933, p. 777.

<sup>2</sup> Compare Fay, *Economic Journal*, *op. cit.*, p. 422. Also, Hall and Watkins, *Co-operation*, p. 354.

of co-operative principles and then proceed to investigate how far insurance activities comply with them.

The essentials of co-operation may be expressed in the following definition : co-operation is a voluntary organisation with unrestricted membership and collectively owned funds, comprising wage-earners and small producers in town and country for the establishment of enterprises under joint management with the purpose of improving their household and/or business economy, or creating facilities for work ; it is built on a democratic basis of equality and common interest, and surpluses produced are allocated to reserves or distributed among the members in proportion to the utilisation by them of the facilities provided by the organisation.

This definition contains legal, social and economic elements, which can be analysed in turn with a view to applying them to insurance activities.

#### LEGAL ELEMENTS

The main legal characteristics of a co-operative institution are : voluntary and unrestricted membership, collective capital, and its co-operative form of organisation. Do co-operative insurance institutions conform to these characteristics ?

As has already been mentioned co-operative insurance is a voluntary organisation. In Europe, many governmental, provincial and municipal authorities have to a great extent forestalled co-operation in prescribing compulsory insurance, especially rural, directed by the State or municipalities. When public insurance is conducted on monopolistic lines it leaves no place for the voluntary method. But where only insurance is compulsory, while the organisation through which it is to be effected can be chosen by the individual policy-holder, co-operative insurance can hold its ground.

Co-operative insurance is a voluntary organisation formed in the interests of its members who may be individual co-operators or co-operative bodies. It has great advantages over private companies where the personal bond <sup>1</sup> between

<sup>1</sup> See Radford, *Agricultural Co-operation and Organisation*, pp. 132-4 : " The Co-operator is a good life from the very fact of his

the policy-holder and the insurance institution is often completely lacking. The element of loyalty and the sense of responsibility of individual policy-holders generally plays a very important part in insurance activities. The greatest danger of disloyalty is to be found in those insurance institutions where the vast extension of business and the large number of participants destroy the bonds of common interest of members and the sense of their joint responsibility as members of the same insurance body. The co-operative insurance institutions must educate their members to understand the value and importance of such conscientious collaboration. Not less essential is the loyal support of the co-operative insurance societies by the co-operative trading organisations.

The importance of the personal element in co-operative insurance and of the personal bond which exists between the members of a co-operative insurance society, is best demonstrated by the fact that it considerably reduces and frequently almost eliminates the "moral hazard". A company in a big way of business cannot investigate the personal character of each and every individual proposing to take out a fire insurance policy. In the case, however, of a local co-operative insurance society operating in a district "where everybody knows everybody else, not only would individuals regarded as actual or possible 'wrong ones' not be accepted as members, but it would be to the general interest of a man's neighbours to detect any misdemeanour of which he might have been guilty since the making good of the loss would otherwise fall upon themselves".<sup>1</sup>

The personal bond between the members in co-operative insurance institutions manifests itself also in increased prevention, which is the main condition responsible for the increasing efficiency and of the cheapening of insurance

co-operation, whatever the doctor may say about his physical health." . . . "A co-operative district will, as I have said, probably contain a larger percentage of good lives. It will almost certainly contain a few bad ones."

<sup>1</sup> Pratt, *Small Holders*, pp. 192-3.



costs. Prevention expresses itself mainly in the growth of responsibility and of social organisation. Nowhere can these features be better developed than in co-operative organisations : and therefore the close bond of co-operatively organised members is an asset which cannot be overestimated. Strickland was quite to the point when he contended that insurance is born of a belief in the stability of institutions and the honesty of men.<sup>1</sup> It is evident that co-operation which is "capitalisation of honesty" is the best form for the organisation of insurance activities.

Co-operative insurance is not only built on the principle of membership, but on *unrestricted* membership. It should be borne in mind, however, that in individual insurance—as distinct from group insurance, every insured unit (person or property) is "valued" individually in accordance with the risk which it represents. New members are admitted in a co-operative insurance society if they are suitable in accordance with the regulations and do not represent a bigger risk than the average insured by it. The membership is not restricted and any suitable applicant, anybody who has used temporarily the services of the society without being a member, can become a member if he is willing to observe the rules and assume the duties of membership.

There is, however, a difference between the methods of private and co-operative insurance in regard to the selection of risks. There are several restrictions,<sup>2</sup> used in selecting risks in life and other forms of insurance. Let us consider how they are used in co-operative insurance. The first two methods sometimes employed by private insurance are discrimination against certain occupations, and against residents of certain localities. Co-operative insurance does not use these methods of discrimination, because it is open to all future members.

The third restriction is discrimination against individuals who attempt to procure insurance in amounts obviously in excess of their normal needs, which also includes cases where the beneficiary has no insurable interest in the life of the

<sup>1</sup> Strickland, *Studies in European Co-operation*, p. 165.

<sup>2</sup> Hardy, *Risk and Risk-bearing*, pp. 258-9.

insured. A co-operative insurance institution is not faced by this difficulty, because it insures only its own members and exists to serve them and to safeguard their interests.

The last method, inspection and inquiry, designed to aid in estimating the moral hazard, finds its best application in co-operative insurance, especially in local societies. The personal bond between the members and their knowledge one of another often makes inspection superfluous. On the other hand, medical examination and family history are used in individual insurance by co-operative insurance societies though they are not applied in collective and group insurance.

The difference in the methods of selection of risks between profitmaking and co-operative insurance results from the difference in their aims. The private insurance company selects risks as tending to increase its profits. The co-operative insurance organisation exists to serve its members ; and if it controls their selection, it does so with the object of avoiding too high losses and to safeguard the interests of the membership as a whole. The personal element plays a more important part in co-operative insurance than in any other co-operative organisation with the exception of credit co-operation. But the loss which has to be covered by insurance is a material, pecuniary one, and in order to be able to cover it, capital is needed. This capital is usually provided by the co-operative shareholders or guarantors.

The importance nowadays of considerable capital for the initiation of insurance business makes the establishment of a co-operative insurance institution difficult.<sup>1</sup> We emphasise "nowadays" because at present any new insurance institution has to compete with the old, firmly established companies, which have accumulated very large funds and which impress the future policy-holder with their solidity and security. The need for a considerable initial capital makes insurance a field of activities especially

<sup>1</sup> Gide, *Consumers' Co-operative Societies*, p. 120, has rightly indicated that the explanation of the greater success of mutual insurance, which often takes the place of co-operative, lies in the fact that it is conducted without fixed capital.

appropriate and suitable for large and well-established co-operative federations and societies. That is why co-operative insurance is frequently found not as an independent enterprise organised by individual members, but

it is beginning to grow as an offshoot of the main body of distributive co-operative associations. It is only natural that a society of consumers, which aims at providing all the economic wants of its members, should also devote some thought to their security and insure them against risks.<sup>1</sup>

Co-operative insurance like co-operative production is often conducted as an enterprise belonging to a central co-operative body, to a wholesale society or perhaps to a trade union. There is in existence, however, another type of co-operative insurance—a society formed by the insured members themselves on co-operative principles. This latter type stands in the same relation to the former as the workers' productive society to an ordinary co-operative factory owned by the C.W.S. The real object of co-operative insurance enterprise is to introduce into the first type of co-operative insurance enterprise as many features as possible of the second.

Apart from capital, reserves play a very important part in insurance activities. The insurance society holds as reserve, and therefore presumably invests, a sum of money equal to the present value of the obligations which it has contracted in favour of its existing members, less the present value of the probable future premiums to be paid by those members.<sup>2</sup> Therefore, reserves really represent in insurance the collective guarantee of the insured group, and some writers have gone so far as to insist that capital is of secondary importance in insurance business and that "scientific insurance, like sound banking, merely depends on the existence of adequate reserves".<sup>3</sup>

<sup>1</sup> Gide, *Political Economy*, p. 747, footnote. Also *Consumers' Co-operative Societies*, p. 119.

<sup>2</sup> Compare Paish and Schwartz, *Insurance Funds and their Investment*, pp. 22-6.

<sup>3</sup> Patterson and Scholz, *Economic Problems of Modern Life*, p. 75.

## SOCIAL ELEMENTS

Co-operative insurance is a collective enterprise, but it originates from the personal interest of the insured. Like other kinds of co-operation the co-operative insurance society is a business enterprise, conducted in the interests of its members who have realised that the satisfying of their needs can be done better, cheaper or more safely through their joint organisation than otherwise. Like other forms of co-operative activities, co-operative insurance is distinguished from capitalist enterprise not only by the particular method of working, but also by the defined social strata of the members and the aims of its activities.

The social elements in co-operation are of great importance and have aroused much controversy. These elements comprise the social strata of the membership and the principles of democracy, equality, joint management and mutual service in the organisation of co-operative bodies. Do the methods and aims of insurance conform to these principles? Co-operation caters for the working population—*e.g.* for wage-earners and small urban and rural producers. The social aspect of co-operative insurance should be a vital concern to the individual policy-holders. It is very easy for academic writers such as Wagner, Rohrbeck and others to declare that each policy-holder can choose such a risk-community (*Gefahrgemeinschaft*) as is in accordance with his interests and sympathies.<sup>1</sup> In real life the working population has very little choice in regard to its insurance company. The leading companies are imposed on them by an army of agents and all the modern devices of advertising and canvassing. In face of this it is really astonishing that the working population finds enough energy and determination to fight its own battle, and that there should be considerable groups of wage-earners and small farmers in town and country, who regard co-operative insurance as an important instrument for the satisfaction of their insurance needs. Co-operative insurance is less expensive than ordinary insurance and the cheapness of the services rendered

<sup>1</sup> Rohrbeck, *Festgabe fuer A. Manes*, p. 59.

is bound up with the social strata of its membership : it can be subscribed on more favourable terms than profitmaking insurance and so helps the " small man " to make full use of the benefits of insurance.

It is the social character of co-operative insurance enterprise that has secured the great interest in it taken by philanthropists and social reformers.<sup>1</sup> In fact, the modern systems of co-operative credit and insurance owe a good deal to the philanthropic flair for their inception : but both are fundamentally well fitted for independent co-operative effort ; and this results in the fact that co-operative societies for credit and insurance are now able to stand by themselves and to render considerable services to their members and to the co-operative movement as a whole.

Co-operative insurance is built on a democratic basis, each member having one vote in the general meeting of the society, and participating in the general management by electing the board and officers of the society. This is the chief distinguishing feature of co-operative organisations as contrasted with semi-mutual capitalist insurance companies. Some of these companies return to the insured a good portion of profits, but hardly any of them give the insured a *full* share in the management and conduct of the business. From the Reports on Industrial Assurance one can learn a good deal about the negligible part played by the policyholders in some of the " profitmaking " mutual societies. These Reports and other investigations show that the shareholders and agents are very eager to retain full control in their own hands.<sup>2</sup>

Co-operative insurance societies are built not only on a democratic but also on a joint-management basis. This makes co-operative insurance less expensive than any other forms of insurance, because many of the officers, especially in rural co-operative organisations, are honorary. This feature has a long time attracted the attention and sympathy of small farmers, and it is not surprising that insurance was

<sup>1</sup> Smith Gordon and O'Brien, *Co-operation in Many Lands*, p. 121.

<sup>2</sup> *Cohen Report* (1933), pp. 24, 47, 48.

at an early date marked out among agriculturists as a proper field for co-operative management.<sup>1</sup>

Finally, there is the element of equality, which is one of the most valuable principles of co-operation. As Gephard has indicated :

It must also be remembered that insurance does not concern itself so much with individuals as with groups of individuals and that, in its actual operation, tests of individual equity cannot be applied. In no mutual co-operative organisations can every individual expect to secure a good personal bargain as determined by the consideration of the market.<sup>2</sup>

Co-operation is thus organised as a movement of the economically weak who are endeavouring by mutual help to improve their economic position, and is, therefore, no place for the activities of bargain hunters. The persons exceptionally strong economically or physically, who can rely upon their own strength in life's struggle and are capable of conducting it singlehanded, usually prefer capitalist organisations and do not often join co-operative societies. Sometimes they unite in private mutual organisations in order to serve their special needs, their group requirements.<sup>3</sup> Co-operation on the other hand is built on joint efforts and mutual service. Every one becomes a member in the co-operative organisation in order to serve his own interests through the joint organisation. There is no natural or economic equality in insurable units (persons or property), but in many branches of insurance each policy-holder can help the insurance society to a certain extent to equalise risks by taking special care in regard to the insured objects.<sup>4</sup>

<sup>1</sup> Wolff, *The Future of Our Agriculture*, pp. 191-2.

<sup>2</sup> Gephard, *Principles of Insurance*, Vol. II, p. 217.

<sup>3</sup> Wagner, *op. cit.*, p. 425.

<sup>4</sup> Compare Rohrbeck, who pointed out that the policy-holder (insured) does not find himself in a relation of direct submission to an insurance society, but he is indirectly himself an insurer, because carelessness or recklessness in his own conduct can increase or diminish the protection given by insurance. (See *Festgabe fuer A. Manes*, p. 51.)

## ECONOMIC ELEMENTS

The economic elements of co-operative insurance are embodied in the aims of the co-operative insurance institution, in its business character, in the method of establishing new enterprises and of distributing profits. How readily co-operation will lend itself to the business of insurance scarcely needs to be pointed out. The very basis upon which insurance rests is the collaboration of many, and the larger the number of policy-holders the safer and the cheaper in consequence will be insurance. Accordingly, co-operation seems to be clearly indicated as the proper method for insurance organisation. There are two main economic objects of co-operative insurance : insurance of the personal needs of the members and of the trading interests of co-operative enterprise. In so far as it serves individual members, co-operative insurance operates with great advantages according to the general rules of insurance. On the other hand, the activities concerned with co-operative enterprise differ considerably from those of capitalist insurance.

Co-operative economy differs radically from the capitalist one. Although it operates in the midst of a capitalist world and is to a great extent influenced by it, co-operative activities are conducted on different lines and with different aims. This manifests itself with special clarity in insurance. Co-operative insurance may serve as a mirror of co-operative economy and as a clear demonstration of co-operative theory. The main problems of general insurance theory as viewed from the angle of capitalist enterprise—the risk and uncertainty of the capitalist market, entrepreneur's risk, the division of financial and industrial capital—have quite a different meaning in a consumers' co-operative system which deals with an organised, and to a very great extent, a measurable market. Marketing risks experienced by consumers' co-operative organisations are limited. There is also no division between industrial and financial capital in the co-operative enterprise, as all co-operative resources are subordinated to the general needs of the movement. The

position of agricultural marketing co-operative organisations is different as they operate mainly for the open market (often international) and are exposed to many of the dangers common to capitalist trade.

The connection between uncertainty and profit in co-operative enterprise, especially in consumers' co-operation, is quite different from that in capitalist enterprise. A consumers' co-operative enterprise when combined with co-operative production could be (and is already to a limited extent) a real association of consumers and producers. Hicks, dealing with the modern theory of profit and analysing the connection between profit and uncertainty,<sup>1</sup> draws a hypothetical picture of considerable interest for future developments.

Co-operative insurance creates a new power, a new enterprise, which represents something more than the individual efforts of its members. It combines many separate risks in one joint risk and transforms them into something different in quantity to the sum of the separate risks, which the members of the insurance societies seek to avoid. As Gierke<sup>2</sup> puts it, "the resistance power of the co-operators against certain accidents is not arithmetically but geometrically progressive." This transformation of individual efforts into a new qualitative power much stronger than the sum of these individual efforts is of a great value, especially as it covers such risks as are the necessary or unavoidable concomitants of socially desirable economic activities.

The method of profit distribution often serves as the ultimate test of the co-operative character of an organisa-

<sup>1</sup> Hicks, *op. cit.*, pp. 171-2: "In a market in which the course of future events was entirely foreseen, profit could not exist. All services would be remunerated at rates fixed in advance according to the value of their marginal products, allowance being made for changes in these values during the periods for which the contracts were to run. There would be no 'residue', a firm need not take the form of one group paying wages to another group, but might as well be a co-operative association of which all capitalists and labourers were equally members, and from which all drew their remuneration in the same familiar way."

<sup>2</sup> Gierke, *Rechtsgeschichte der Deutschen Genossenschaft*, p. 1049.



tion. In co-operative insurance societies the members receive a limited interest on their shares, and the surplus is distributed among the policy-holding members in proportion to their contributions to the creation of the surplus. This method of distribution of profits is so characteristic of co-operative enterprise that when similar methods are adopted by non-co-operative societies they are called "co-operative".<sup>1</sup>

We have now considered the social, legal and economic characteristics of co-operative insurance as manifested in existing organisations. What remains to be done is to embody in a definition those characteristics that are essential for our subject. This definition can be formulated as follows: co-operative insurance is a voluntary organisation with unrestricted membership and collectively owned funds, comprising individuals, or organisations of wage-earners, and small producers in town and country. The co-operative insurance enterprise is built on a democratic basis of equality, common interest and collective management, for the satisfaction of future probable needs of the members and for grouping and offsetting the risks to which they are exposed in order to cover their estimable casual capital wants. Dividend on capital is strictly limited, the surplus of premiums and investments being allocated to reserves or distributed among the members in proportion to their utilisation of the insurance facilities provided by the co-operative insurance society.

<sup>1</sup> An interesting illustration is given by Gephard, who describes "the contribution plan as co-operative principle. As its name implies this plan is the method by which it is sought to return to each policy that share of the surplus which it has contributed. It takes into consideration the kind of policy, its duration, and the age of the insured. A policy is credited for any given year with the terminal reserve of the preceding year, the annual premium of the current year, and the interest earned therefrom during the year. It is debited with the proportionate share of the expense of the year which this policy should bear, the mortality cost of the insurance for the year, and the reserve for the end of the year." (*Principles of Insurance*, Vol. I, p. 259.)

### 3. THE DIFFERENCE BETWEEN CO-OPERATIVE AND OTHER TYPES OF INSURANCE

As we have mentioned before, in the general literature on insurance the assertion can often be found that every kind of insurance is co-operative.<sup>1</sup> But if this were the case, if all types of insurance are co-operative, then what meaning could be attached to co-operative insurance as a special distinct type of insurance? In fact, co-operative insurance is a type of its own, the other three main types being profitmaking (capitalist) provident (mutual) and public insurance.

Although it can be admitted with Gide that in relation to insurance the difference between these two methods—co-operative and mutual—is at first sight not so pronounced as in other spheres, and although both terms may even be sometimes used quite indifferently in regard to insurance,<sup>2</sup> there are, however, many features, which distinguish co-operative from mutual insurance (see chapter "Mutual Insurance", p. 102). A co-operative insurance society, like all other co-operative bodies, is a permanent institution, a business enterprise. Co-operation "implies

<sup>1</sup> See Gephard, *Principles of Insurance*, pp. 1-2. Insurance in all its forms . . . is a method of co-operation among members of a group subjected to a risk, the frequency of which can be calculated with more or less certainty. Also Fetter, *Modern Economic Problems*, pp. 187-8: "Insurance in essence and largely in origin is a co-operative method of providing for survivors by all in a group contributing a sum to be given to the families of those dying." Also Talmaki, *Co-operation in India and Abroad*, pp. 275-6: "The essential elements of insurance are foresight and co-operation."

<sup>2</sup> Gide, *Consumers' Co-operative Societies*, p. 4: "When it is a question for societies of insurance of goods—such as fire or livestock insurance, or even credit societies for the borrowing of capital, the words mutual aid and 'co-operative' society are used almost indifferently." See also Fay, *Co-operation at Home and Abroad*, p. 9: "Co-operative insurance societies (mutualities), which, especially when they concern themselves with the insurance of utilities in the course of production, such for example as the insurance of livestock, are aids to production in much the same way as the credit society."

a bond of union over and above the *casual* relations of the money tie" (Fay). The members of a co-operative insurance society join together for a common business purpose. The contract between the member and the society, though a permanent is not a perpetual one, for a member can withdraw by giving due notice; but each member is expected to regulate his relations with the co-operative insurance society in the interests of the whole collective body.

In what respects does this co-operative insurance enterprise differ from capitalist and public insurance? Co-operative insurance is a business enterprise organised by the members in their own interests. In properly organised co-operative insurance societies there are no clients as distinguished from shareholders; each member is both shareholder and policy-holder, participating in the capital of the society and being served (insured) by it. Co-operative insurance is not a profitmaking enterprise as is the case with capitalist insurance. It pays over to its members the surpluses made out of its operations. Legally the co-operative insurance company bears much more resemblance to an ordinary insurance company with fixed premiums than to a mutual society. The essential difference between a co-operative society and a capitalist insurance company is that the surplus, instead of being distributed among the shareholders in proportion to their shares, is divided in a co-operative insurance company among the insured co-operators in proportion to the premiums paid by them.<sup>1</sup> This formula needs, however, some correction: in some co-operative insurance organisations there is no share capital<sup>2</sup> (as in the Raiffeisen credit organisation), but the organisation is built on guarantees and on reserves which represent collective capital and are formed from the surplus earned.

<sup>1</sup> Compare Gide, *Consumers' Co-operative Societies*, p. 120.

<sup>2</sup> Talmaki, *Co-operation in India and Abroad*, pp. 277-8: "A co-operative life insurance society may be formed by registration under the Co-operatives' Act. It would be on the mutual system either having no shares at all, or even if shares are introduced, it would not be a proprietary concern, as the shares would be of small value, carrying a limited dividend and held only by the policy-holders and by a few sympathisers for helping the concern."

Co-operative insurance institutions are built on share or guarantee capital subscribed by their individual members, or by co-operative organisations. This capital and the reserves accumulated from the surpluses form the financial foundation for their activities. They earn surpluses out of which co-operative shareholders receive a limited dividend (usually not more than 5 per cent.) on their shareholding, and the rest, after the transfer of a part of the profits to reserve, is distributed among the member policy-holders in proportion to the premiums paid by them. Co-operative insurance societies contract with the insured members and undertake to pay *fixed* sums stipulated in the policy. They have to provide, therefore, sufficient funds to meet their obligations and they shape their premium policy accordingly. The members have, therefore, to pay fixed premiums under their policies, and are not called upon periodically to cover the losses incurred by the company during the year by paying levies as in the purely mutual companies.

Co-operative insurance differs also from the third group—public insurance—in three respects. It is voluntary: there is no compulsory membership in co-operative societies and members can leave the society if they choose to do so. It is operated by the members in their own interest and is not conducted by an outside authority or in the interests of a third party. It is managed collectively by members who elect the management body on a democratic basis. The members thus control the activities of the societies and are responsible for the result of their operations. It must be remembered that in public insurance the compulsion is in no way a characteristic only of our century of social policy, and that compulsory insurance can be traced several centuries back. It was prompted by the desire of public authorities to protect by insurance such interests as are largely exposed to dangers which in consequence have to be safeguarded for the benefit of the community.

It will be clear from this analysis that co-operative insurance differs from other types of insurance and that there is need for a special study of the subject.

## CHAPTER V

### CONSUMERS' CO-OPERATIVE INSURANCE SOCIETIES

CO-OPERATIVE insurance societies differ considerably in their organisation and sphere of activities. They have been influenced by the historical and geographical conditions of their countries of origin and by their urban or rural environment. The legislation of various countries is another factor which has to a great extent affected the development of co-operative insurance activities and especially the form of their organisation. In some countries such as France, insurance on a non-profitmaking basis can be conducted only by mutual societies, having no share capital; elsewhere, as in Scandinavia, a co-operative society may subscribe only one kind of insurance, and special societies have had to be organised for each branch. As a result co-operative insurance societies are divided into two groups: general, operating in many branches of insurance, and special societies covering one branch only.

Further, consumers' co-operative insurance societies may be classified in accordance with the units of which they are composed. The simplest type, which may be called primary, is represented by societies established by individual members. These societies operate in a manner common to primary co-operative societies in other spheres of co-operative activities. They often take a further step by admitting to their membership local co-operative bodies and labour organisations for the insurance of their property against fire, burglary, etc. In such cases the membership becomes a mixed one composed of individual and collective members. The development of secondary societies usually starts from the other end: co-operative insurance societies of a federal character are established not by individuals, but by different co-operative societies, trade unions and

labour organisations ; these societies also admit often individual members. Finally, co-operative insurance societies of a third grade are established by co-operative wholesale societies or co-operative unions as their subsidiaries for the whole movement.

Thus, consumers' co-operative insurance institutions can be divided into three main groups: (a) primary societies—composed of individual members, (b) secondary societies—formed by local co-operative societies and other collective bodies with or without the participation of individual members and (c) third-grade societies formed by the co-operative wholesale societies with or without the participation of local co-operative societies. The development and activities of the consumers' co-operative insurance societies will be analysed in accordance with the above classification.

#### A. PRIMARY CONSUMERS' CO-OPERATIVE INSURANCE INSTITUTIONS

Societies in this group operate in Bulgaria, Scotland, U.S.A. and Denmark. Bulgaria takes the first place, being represented by seven societies. The oldest of them is the Teachers' Mutual Co-operative Insurance Society ; it was founded in 1903 by a few pioneers subscribing amongst them initial funds of 2,833 Leva. The first balance sheet (June, 1903) amounted to 13,647 Leva of which 9,887 Leva were the contributions of the policy-holders. At the beginning of 1932, after twenty-eight years of operation, total assets had risen to 53,581,587 Leva. General reserves had increased to 8,117,787 Leva and insurance reserves had grown to 41,857,529 Leva. Policies issued numbered 16,240 with 303,901,715 Leva assured, of which 110,254,000 Leva was reinsured. For the first twenty-five years of operation 16,661 policies were issued, including 7,954 to teachers, 3,582 to civil servants, 4,805 to professional men and 320 to persons of other professions.

The second institution—the Co-operative Civil Service Insurance Society—started operations in 1905 and is at present one of the most important insurance societies in

the country, occupying the first place in regard to life assurance; it is organised and operates in accordance with strict co-operative principles. The main reason for the formation of the society was the unsecured and difficult position of the civil servants in Bulgaria, who during the constant changes of Government were always in danger of losing their posts without acquiring pensions—all appointments being subject to political control; apart from this their families were unprotected when an early death of the breadwinner occurred. The society started operations by subscribing life assurance and at the end of 1935 it had 107,296 assured for all kinds of life, endowment and collective popular insurance. The policies are issued as individual, group or collective, according to the number of persons insured under one life or accident policy. The following figures show the activities of the society at the beginning of 1935.

<i>Branch of Insurance.</i>	<i>Number of Policies.</i>	<i>Sum insured in Leva.</i>
Life :		
Individual . . . . .	74,699	1,352,077,110
Collective . . . . .	21	75,623,000
Accident :		
Individual . . . . .	1,337	141,815,000
Collective . . . . .	29	105,640,000
Fire . . . . .	20,180	6,381,625,000

The premium rates of the society are considerably cheaper than those of private companies. In addition the society returns to the insured members part of the benefits realised, in the form of dividends: after three years of insurance a bonus of 3 per cent. has been fixed for life insurance policies with an annual increase of 1 per cent. to a maximum of 20 per cent. Notwithstanding the fact that the premiums of the society are lower than those of its competitors, dividends have been distributed regularly to policy-holders and aggregate the imposing sum of 20,118,000 Leva. The society is earning considerable surpluses, that for 1934 amounting to 11,942,543 Leva. The surpluses are used for paying dividends and for allocation to different funds.

The fire insurance branch was started in 1921. Dividends in this branch represent a reduction of as much as half a yearly premium in cases where a six-years' period insurance has been contracted. Total dividends distributed until 1933 reached the figure of 1,711,000 Leva. The remainder of the surplus is divided amongst several funds : 25 per cent. to reserves, 3 per cent. to the members of the Management Council and the Management Committee in sums not exceeding 3,000 Leva yearly per person ; 6 per cent. to the society's employees and another 6 per cent. to the society's agents. The rest is transferred to a benevolent fund, for building sanatoria and health stations and to provide first aid in cases of illness among members of the society ; a part is also used to form a fund to allow distribution of dividend, for sinking and depreciation funds for the society's properties and for bad debts. The benevolent fund is made use of in helping poor members in illness ; up to 1933 a total of 150,000 Leva was distributed among 325 members. Thanks also to this fund, three fully equipped sanatoria have been founded, enabling members and their families to benefit from these services for a small payment. The society is also developing preventive medical services : it has set up a clinic for medical diagnosis which is free to members, and publishes pamphlets on hygienic subjects. It aims to increase greatly these preventive activities.

The society shows a very low proportion of lapsed policies which for the year 1934 numbered only 5,648 (27,129,000 Leva, or 1.8 per cent. of insured capital). The management expenses absorb about 10 per cent of the premium receipts : 420 individual and 10 collective agents are employed and work on a commission basis. The society reinsures part of its risks with other insurance societies and also reinsures fire and accident risks for other societies.

The management organs of the society are : (1) the general meeting of all members, (2) the management council, (3) the management committee, and (4) the control committee. The general meeting consists of all insured members, whose insurance policies are in order and paid at least for a year in advance. The management council consists



of fifteen persons, one-third of whom are re-elected every three years. The control committee consists of three members elected by the general meeting every year.

At the beginning of 1934, total assets of the society amounted to £1,140,911, out of which £297,891 was placed with co-operative banks, £164,714 invested in real estate and £584,783 in mortgages. The society occupies an important place among co-operative institutions and takes an active part in general co-operative propaganda. It aids the co-operative movement considerably by depositing a part of its funds with the Bulgarian Agricultural Bank and the Bulgarian Co-operative Central Bank. At the beginning of 1936 the total assets of the Society amounted to 609,118,331 Leva including 55,532,539 general reserves and 487,486,704 insurance reserves.

The third institution, the Co-operative Society "Sadruqa", was established in 1924. It subscribes life and fire insurance, but under the articles of association it is permitted to open other branches, including agricultural insurance. "Sadruqa" is built on strict co-operative principles; each member has one vote only irrespective of the sum for which he is insured; 60 per cent. of net profits are credited to the policy-holders' bonus fund and to funds used for cultural purposes. In the life insurance branch 55 per cent. goes to policy-holders and 5 per cent. is placed to a special sanatorium and health colonies fund. In the fire and other property branches the policy-holders receive back only 30 per cent. of the net profit, the other 30 per cent. being placed to a special cultural and educational fund. Of the remaining net profits, 25 per cent. is credited to the general reserve fund and 15 per cent. spent in remuneration of the managing bodies of the society (Councils of Administration and Supervision) and its employees. At the beginning of 1936, the general reserve funds of the "Sadruqa" were 2,433,772 Leva and insurance reserves 14,517,731 Leva; 11,807,198 Leva composed of life branch reserves and 2,128,886 Leva for fire insurance and other branches; the total resources of "Sadruqa" amounted to 24,627,203 Leva.

The other four co-operative insurance societies were established in Bulgaria in 1922. One of them, the "Proprietor", subscribes fire insurance and three others—"Concord" (Saglassie), "Military Insurance Office" (Voenna Ossigouritelna Kassa) and "Moussallah"—cover life insurance. The fire insurance society was established by a group of house-owners for the insurance of their houses on a non-profit-making basis and the "Military Insurance Office" was formed by a group of officers to subscribe life assurance.

The societies are small and occupy the last places among the insurance companies of Bulgaria. Their operations, with the exception of the "Military Office", are developing very slowly.

<i>Names.</i>	<i>Number of Policies in Operation.</i>	<i>Per cent. of Lapses.</i>	<i>Per cent. of Expenses to Premiums Paid.</i>	<i>Number of Members.</i>	<i>Sum Insured in Leva.</i>	<i>Place Occupied among the Insurance Companies of Bulgaria.</i>
1. Proprietor	284	—	78	284	99,647,000	32 (last)
2. Concord .	561	11.5	24	960	7,195,294	29
3. Military Office .	7,252	6.5	22	6,754	46,574,780	22
4. Moussallah	198	7.0	19	198	6,006,520	30

The societies operate at the same rates as the profit-making companies and only the "Military Office" subscribes insurance at more advantageous rates. The "Proprietor" and "Concord" have sustained losses and the other companies have not yet distributed any dividends or bonuses, though the surplus of the "Military Office" amounted for 1934 to 124,182 Leva and that of "Moussallah" to 53,804 Leva. The financial position of the societies (in Leva) can be seen from the following figures :

<i>Name.</i>	<i>Capital.</i>	<i>Reserves.</i>	<i>Insurance Reserves.</i>	<i>Total Assets.</i>
1. Proprietor . . .	242,400	—	51,041	311,912
2. Concord . . .	9,600	—	1,924,115	2,831,515
3. Military Office .	—	7,343,576	7,882,154	15,888,548
4. Moussallah . . .	130,300	53,210	1,575,764	2,569,652

The assets are invested in bank deposits and mortgages. The general meetings of members constitute the highest organ of the societies. They elect the Management and Control Committees. The "Military Insurance Office" operates without agents and the other societies employ only a few agents.

The Scottish Consumers' Co-operative Organisations established the Scottish Co-operative Friendly Society in 1912. As this society is approved under the National Health Insurance Acts for National Health Insurance business only, it has no Articles of Association. The individual membership has increased from 11,881 in 1912 to over 45,000 at the end of 1934. The number of men members in 1912 was 6,249 and it has since grown to 25,613, and the number of women from 5,632 to 19,625.

The benefit funds amounted on January 1, 1935, to £274,487. During 1934, the society has received £50,865 in contributions and paid £47,038 in benefits, out of which £25,457 was sickness benefits. Out of £8,342 administrative expenses for the year, nearly half was spent on representatives' and agents' allowances.

The Workmen's Mutual Fire Insurance Society was organised in New York in 1872. As its Articles of Association declare, "The society is organised for the mutual protection of its members against loss by fire on the basis of co-operation and self-help." The institution is a Co-operative Household Fire Insurance Society subscribing fire indemnity at actual cost. It is affiliated to the Co-operative League of America and operates under the supervision of the New York State Insurance Department. It has at present 90 branches throughout the United States, each branch being in charge of a non-salaried secretary. The Head Office is managed by a Board of 13 directors elected annually at the members' meeting. Membership is available to every one upon application to the society. Every policy-holder becomes a member of the society and has a vote in its administration. The initial cost of joining is 75 cents investigation fee to determine the amount of insurance to be issued. Upon admission every applicant must deposit

a sum equal to 90 cents for every \$100 of insurance to be issued to him and has to pay the premium in advance for one year and three months. This deposit does not bear any interest. It is returned in full to the member upon withdrawal from the society or cancellation of insurance. Maximum insurance issued on one house or apartment is \$3,000. The society has one rate only, irrespective of locality or character of dwelling. The annual premium is only 10 cents for every \$100 of insurance. These low rates are made possible because the interest from the deposits of the members and the annual premiums paid by them are used exclusively for the payment of the fire claims and the expenses of administration. The society pays 100 per cent. of the loss against 80 per cent. paid by other insurance societies.

The society has no stock or bondholders and does not employ agents. Therefore, it has no dividends and no commissions to pay, and shows substantial surplus every year, although the management expenses absorb 42 per cent. of premiums received. The surplus is added yearly to the society reserve fund, which amounted at the beginning of 1936 to \$292,793, representing nearly 27 per cent. of total assets of \$1,107,068. In addition to the reserve fund the society has a guarantee fund of \$827,783. In 1935, the membership was 65,681 with policies in force for \$82,778,345; 37,947 members with \$48,994,650 insurance policies were affiliated to the Head Office (main branch) and 27,734 members with \$33,783,695 to local branches.

The "Andelsanstalten Tryg" in Denmark is a co-operative life assurance society, formed in 1903 by a group of individuals; the members have one vote only, irrespective of the sum for which each of them is insured. The guarantee capital of the society is 500,000 Kr. and its subscribers receive a maximum dividend of 5 per cent. The surplus is distributed between the legal reserve funds and the "participation funds" which are used for the benefit of the policy-holders. A small part of the surplus is allocated to a special fund, of which the society can freely dispose. The premium rates of the society are the same as that of

other companies, but the members receive the whole surplus except the 5 per cent. paid as dividend to the guarantors of the capital. The society, although it is one of the youngest life insurance institutions in Denmark, occupies the fifth place amongst them, as to the total sum assured; it employs about 1,850 agents. The surplus for 1934 was 424,894 Kr. : of this sum, 365,000 Kr. were credited to the bonus fund of the policy-holders and 40,000 to reserves.

The management organs of the society are the Committee, the Inspection Committee and the Managers. Every policy-holder, whose policy has been in force for at least one year on the first of January of the year when the election takes place, is qualified to vote; all policy-holders are eligible for election. The highest management organ of the society is the Committee, which is elected on a dual system: by direct voting in Copenhagen and by indirect in the country. Copenhagen, where 14 members are elected, is divided in four districts, and each of them elects the number of members due to the district. The country is divided into electoral districts. In every district and in every provincial town a representative for each 10,000 inhabitants is elected. The representatives, chosen by districts, elect those members of the Committee to which under the Articles of Association their county is entitled. The members of the Committee constitute the General Meeting of the society. This general meeting elects among policy-holders an inspection committee and the latter appoints two managers.

At the beginning of 1935, 173,678 life insurance policies were issued by the Society covering 141,592,885 Kr., 46,492 ordinary life insurance policies for 74,906,897 Kr., and 115,788 policies for popular insurance for 60,946,242 Kr. In addition 4,371 annuity insurance policies for 1,346,869 Kr. were in force. The society has underwritten reinsurance for 7,446 policies for 2,789,022 Kr. for the co-operative society "Andels-Pensionsforeningen". During 1934, 1,175 policies expired, 16,947 policies for 12,328,008 Kr. were repurchased and 1,457 policies for 1,218,802 were issued free. The insurance funds amounted in 1935 to 40,709,991 Kr.,

various other reserve funds to 1,467,495 Kr. and the bonus or participation fund to 2,902,126 Kr.

The second co-operative insurance society in Denmark—the Workers' Life Insurance Co-operative Society (Arbejdernes Livsforsikring)—was established in 1903 with the aim to subscribe life assurance for the working population at modest rates. At the beginning of 1936, 34,000 members have been assured for 25,015,281 Kr. The premium rates of the society are lower than those of profit-making companies and it grants also higher bonuses to its policy-holders. The society employs 145 agents and spends 25 per cent. on all expenses including acquisition of business. It reinsures its operations in the State Life Insurance Institute. The society is managed by the General Meeting which elects a Representative Board of 18 members and an Executive Committee of 3 members. The total assets amount to 1,008,852 Kr., of which capital represents 60,000 Kr., general reserves 144,269 Kr., and premium reserves 262,884 Kr. Over 70 per cent. of the assets is invested in loans to policy-holders and the rest in stock exchange securities.

### B. THE SECONDARY SOCIETIES

This group is composed of co-operative insurance institutions formed by local co-operative consumers' societies, but in which membership and shareholding are open also to individual co-operators. Societies of this group operate in Czechoslovakia, Roumania, France, Spain and U.S.A. In Spain and Holland local consumers' societies have established special insurance or health departments to serve their members.

In Czechoslovakia a special insurance co-operative society, "Czechoslovakia", was established in 1919 by the consumers' co-operative societies and is affiliated to the Central Union of Czechoslovakian Co-operative Societies. The bulk of the shares in this society is held by the workers' co-operative societies, and only a small proportion of shares is in the hands of private individuals—members of the labour movement. The Articles of Association restrict the dividend

to a maximum of 5 per cent. which up to now has been regularly paid. "Czechoslovakia" subscribes life assurance and different property risks. It has developed very rapidly and at the beginning of 1933 "Czechoslovakia" had issued 229,628 policies for £5,307,201, of which 158,529 policies were for life assurance; in addition 48 collective policies for 10,114 persons have been subscribed. The capital of the society amounted to £24,353 (or 4,000,000 Kr.), general reserves to £17,000, and insurance reserves to £988,574. The society operates through a net of agents numbering over 3,000. The premium receipts of the society have risen in 1932 to £277,279. "Czechoslovakia" participates in all the activities of the Union of Central Co-operative Organisations of Prague and contributes regularly to various workers' welfare institutions. Apart from this an important sum is presented annually to the funds of social provident institutions for disabled ex-servicemen. "Czechoslovakia" has also given 1,000,000 Kc. for the building of a sanatorium reserved for insured members.<sup>1</sup>

The "Vulturul" (Roumania) is a general insurance co-operative society admitting both collective and individual members and covering life, fire and property risks. The members participate in the general meetings of the society with equal voting rights irrespective of the number of shares subscribed. The general meeting elects and dismisses the management of the society and determines its policy. The society subscribes insurance at rates considerably cheaper than that of the capitalist companies; apart from this members are entitled to a reduction of taxes and

<sup>1</sup> The leaders of "Czechoslovakia" characterise the position of the society as follows: "The workers' insurance company 'Czechoslovakia' is at present the only existing popular institution. Unfortunately present conditions do not allow it to join in any definite manner the workers' movement, social conditions being decidedly unfavourable. Besides, our whole activity must be directed to induce the middle classes to join our Society and so to strengthen our insurance portfolios. The fact that we are looked upon as one of the principal Life Assurance Companies of our country, in spite of the recent date we started our institution, is a proof that the efforts made have been successful."

rates by an amount equal to 7 per cent. of the premiums paid.

The "Vulturul" also subscribes insurance for non-members, but it aims to induce all policy-holders to become members, so that the bonds which unite the insured and the society may be drawn closer. The balance sheet published by the Vulturul General Assurance Co-operative Society in 1931 showed assets totalling 17,152,610 Lei. The society pays dividends on its share capital at rates which cannot exceed the maximum fixed by the National Office of Roumanian Co-operation. At the close of yearly accounts the policy-holders are entitled to a part of the net profits in proportion to the premiums paid by the policy-holders to the society during the year. Part of the profits goes to various reserve funds and at least 10 per cent. of the net annual profits is used for the formation of cultural, co-operative and social propaganda funds. The object of these funds is not only to give publicity to the existing co-operative societies, but also to extend as much as possible co-operative insurance activities.

The cultural fund aims to raise the cultural standard of the masses. The co-operative fund is utilised in support of co-operative propaganda. The social fund serves as an instrument for the creation of institutions of social importance for the benefit of the associated and insured members of the society as well as for the propagation of the idea of mutuality. In the programme of the society is included the provision of cheap and hygienic houses and flats, the organisation of voluntary fire-brigades, the procuring of means to combat fire in general, and the study of problems concerning the measures of preventive insurance.

The French Co-operative Insurance Institution "La Solidarité", founded in 1900 in Nantes, is organised in accordance with the requirements of the French legislation, as a mutual society, to subscribe fire insurance and other risks. It has no share capital and does not pay dividends or interest. The maximum amount of cover cannot exceed 200,000 francs for each risk—greater amounts must be covered by reinsurance. The society subscribes insurance,



co-insurance and reinsurance and serves a great number of co-operative societies, mainly consumers', trade unions, labour institutions and municipalities and about 102,000 individual members. It is controlled by co-operative and labour organisations, but operates through 250 agents. The Head Office is at present in Paris, but the society has the right to operate in France, Corsica, Algeria, Tunis, Morocco, and throughout Europe.

The highest authority of the society is the general meeting of members. The Administrative Council compiles each year the list of representatives for the general meeting which is composed of 100 of the main insured members or their proxies; half of them represent the payers of highest premiums and the other half the holders of the largest policies. Members can combine to form larger groups in order to be represented at the general meeting. Each insured society participates in the general meeting with the same rights as other members. Half of the premium paid in by members is allocated to the guarantee fund for the payment of indemnities and the other half is spent on general and administrative expenses.

"La Solidarité" subscribes insurance at rates about 20 per cent. lower than the ordinary insurance companies. Under a special policy very favourable conditions are offered to co-operators—members of the National Federation of Co-operative Societies. They are insured for 1,000 francs, each by paying a yearly insurance premium at rates 60 per cent. lower than that demanded for similar policies by other insurance companies. The reserve fund is being built up by accumulation of the surpluses of the preceding years, and by various economies. It is established to safeguard the society against insufficiency of funds in case of an abnormal rate of accidents and against other emergencies. However, not more than half of the sum needed to cover each case can be taken from the special reserve. The magnitude of the reserve fund is determined every five years by the general meeting. The reserve fund belongs to the society, and it can never be reclaimed by any individual or collective members during the existence of the

society. The creation of two other funds is also permissible by the Articles of Association : (1) a special fund for granting loans, and (2) a special fund to cover overhead charges and the cost of enlisting new members. All the expenditure such as indemnities for accidents, reinsurance premiums, interest and all expenses of management are borne by the society and are covered by the contributions of the members. The members do not have to pay more than the contribution, which is fixed at least once in every five years by the general meeting.

Surpluses are applied to meet obligations, to strengthen legal and statutory reserves and to help social and co-operative organisations such as the Children's Co-operatives, the National Federation of Co-operative Societies, the National Committee of Leisure, Workers' Holiday Resorts, Workers' Orphans' Home, Co-operative Societies, School Funds, Co-operative Technical Schools, etc. These societies are receiving grants every year. In addition other funds are kept ready for supporting the co-operative movement so far as this is possible in accordance with the state of "La Solidarité" reserves. The progress of "La Solidarité's" operations can be seen from the following table :

<i>Year.</i>	<i>No. of Members.</i>	<i>Sum insured in Frs.</i>	<i>Premiums Paid.</i>
1900 . . .	170	1,948,350	940
1915 . . .	12,000	130,000,000	75,148
1925 . . .	48,500	1,280,000,000	1,183,944
1930 . . .	78,300	2,695,000,000	2,641,743
1934 . . .	98,000	3,250,000,000	3,876,556
1935 . . .	102,000	3,639,000,000	4,082,605

On January 1, 1935, the funds of the society amounted to 1,827,558 francs, including 213,611 francs of capital reserve and 783,670 francs other reserves. Of the assets 260,262 francs are placed with banks and 1,082,937 francs invested in securities. Profits for 1934 amounted to 91,432 francs. During this year, 968 claims were settled: 2 from 20,000 to 30,000 francs, 20 from 5,000 to 10,000 francs, 111 from 500 to 1,000 francs, and 835 cases of 100 francs and less, for a total sum of 614,045 francs; out of

this sum 292,875 francs were covered by reinsurance and 321,170 francs by direct insurance for the societies' own account.

In Spain the National Co-operative Insurance Society "La Prévision Social" was established in 1934 at the initiative of the Spanish National Federation of Co-operative Societies and by the end of 1935 had issued 881 fire insurance policies for 14,888,735 pesetas. The society has a guarantee fund of 100,000 pesetas and a small reserve fund of 2,164 pesetas accumulated out of the surplus earned in 1935. The society appoints agents, chosen among its own member-societies. The management bodies consist of a Board of Directors and a Control Committee.

In the U.S.A. the Co-operative Life Association was organised in 1934 in Minneapolis by the U.S. Co-operative League. It subscribes life assurance at rates lower than the ordinary companies and had at the beginning of 1936 886 issued policies; 20 per cent. of its members are farmers. The Association is using all its surpluses to consolidate its financial position and to cover the preliminary expenses. The society has 12 individual agents who have the support and collaboration of the local co-operative societies.

In some countries co-operative consumers' societies have formed special insurance or health departments, for the benefit of their members. Since 1904 the workers of Madrid in Spain have maintained a health department in their co-operative society (La Mutualidad Obiera) which provides a comprehensive medical service for 52 pesetas a year per member. For a monthly contribution of  $4\frac{1}{2}$  pesetas a member can avail himself of free medical advice and services, and also free burial. In Holland, the Volharding Consumers' Society at The Hague has established for its members an insurance department against sickness and death as a supplementary service: in 1922 there were 48,000 members connected with this medical section. A member's family receives upon his death a payment which varies with the period of membership. The amount paid in death benefits is about \$12,000 a year.

## C. THIRD-GRADE INSTITUTIONS

This group is composed of co-operative insurance institutions formed by the co-operative wholesale societies and their local member-societies. It takes two main forms: the establishment of special insurance and saving departments within the C.W.S., and the formation of separate co-operative insurance societies legally independent of the C.W.S. The development of each of these types needs to be considered separately.

In Holland the Co-operative Wholesale Society "De Handelskamer" has a progressive insurance department, which effects insurance against fire, burglary, accidents, etc. The policies issued in 1934 numbered 6,063 for a total of 61,084,595 guilders.<sup>1</sup> The Union of German Consumers' Societies in Czechoslovakia carries on insurance operations for 168 societies. For 1934 there was a slight decline in premium income, chiefly in the motor insurance branch as the result of the abandonment of motor transport by a number of societies on grounds of economy. New proposals for fire and burglary insurance to the value of over Kc. 7,000,000 were accepted during the year. In the sphere of life insurance, activity has been suspended in view of the fact that a new co-operative insurance society called the "Vorsorge" (Welfare) has been established with the collaboration and financial participation of the trade unions.

<sup>1</sup> The "Handelskamer" describes its activities as follows: Generally speaking "this department does no insurance business on its own account, but acts mostly as an insurance broker for and on behalf of the co-operative societies, organised in the C.W.S. In this way, we endeavour to place insurances for our members at reasonable premiums and on liberal conditions with private Insurance Companies and Underwriters. The profit, in the shape of brokerage, obtained in this way, is reserved by us for the benefit of the whole. Owing to the majority of the member-societies having in this way, in the course of years, gradually placed their insurance through our intermediary with the insurance companies and underwriters chosen by us, we have obtained much influence. Consequently, it is also to be understood that in cases of claims our members are treated with the utmost promptitude, of which they are not always assured when they are insured as individuals with private insurance companies."

Co-operative insurance in Russia and the Ukraine also started by establishing in 1917 special insurance departments in Centrosoyus, and other central co-operative bodies : these departments were later transformed into special independent insurance institutions (see p. 237). However, all important co-operative insurance institutions of the consumers' movement are at present organised as independent bodies, in accordance with the legislation of each country, as co-operative or mutual societies or as limited companies, and an account of their development and activities will be given in the following pages.

### GREAT BRITAIN

The first consumers' co-operative insurance society was registered in Great Britain on August 29, 1867.<sup>1</sup> Its formation was the result of a decision taken by the delegates representing consumer societies, to the Annual Co-operative Conference held in Manchester in that year, that the time was opportune for the establishment of an insurance organisation within the movement for the benefit of the consumer societies and their members. The original title of the organisation was the Co-operative Insurance Company Ltd. For the first few years the business transacted was confined to fire and fidelity insurance, but later on all classes of insurance were subscribed. The expectations of the founders in regard to the profitableness of fire insurance were not realised, due chiefly to the fact that losses incurred in the fire department were occasioned by the acceptance of larger risks than could be safely covered by a relatively low premium income. A modification of the methods of acceptance of fire risks put the business on a more satisfactory basis and has resulted in many years of successful operations.

Life assurance was started in 1886 and although it has always been profitable, the progress made in this branch

<sup>1</sup> F. Hall, *Handbook for Members of Co-operative Committees*, p. 317. See also Twigg, *The Economic Advance of British Co-operation*, pp. 88-93; Hall and Watkins, *Co-operation*, p. 213; T. W. Mercer, *Towards the Co-operative Commonwealth*, p. 196.

of the business was at first exceptionally slow. The Directors were of the opinion that insurance could be sold at retail stores as easily as tangible commodities. This proved impossible, as shop assistants, occupied with the many duties which are the normal routine of a busy general stores, could not pay adequate attention to activities extraneous to general trade. The policy of the management at this period was also to encourage policy-holders to pay their premiums at longer intervals which would reduce the cost of the insurance but increase the benefits. The lack of success at the time was due not so much to the inability to explain to co-operators the benefits of co-operative insurance, for much propaganda was done, but to the reluctance of the members to depart from a system of payment at short intervals, which was regarded as a settled principle through its wide application by the industrial life assurance companies. Judged from this angle, industrial life assurance, the premiums for which are payable at weekly or monthly intervals, involving a high expense ratio, was considered to be a wasteful system and one which would not commend itself to co-operators. However, whilst co-operators were trying to introduce a new and less costly method, the agents of competing capitalistic insurance companies were being given a free field, and it was felt that part at least of the huge sums of money which the competing companies were collecting should be diverted into co-operative channels where it could be utilised for the benefit of the policy-holders.

After much deliberation it was eventually decided to introduce industrial life assurance. Following this decision, the company was converted into a society and the conversion took effect on March 15, 1899. By alteration of rule, the Co-operative Insurance Society Ltd. was authorised "to carry on the business of insurance in all its branches".

During the ensuing years, the society's efforts to attract industrial and other forms of life assurance were not conspicuously successful, due chiefly to the failure of the management to make sufficient new appointments to their full-time agency staff. In 1901 there were 14 full-time

agents employed, and during the next eleven years only 30 additional appointments had been made.

Upon the introduction of National Health Insurance in 1912, the C.I.S. was registered as an Approved Society so that co-operators could insure in their own organisation. The C.I.S. Approved Society was in existence for a few months only, being merged with the C.W.S. Approved Society before the end of the year. The present membership of the C.W.S. Approved Society is 386,000. The society provides compensation for sickness, maternity benefits, free dental treatment, convalescent home treatment, legal assistance for recovery of compensation, and benevolent grants. Up to September 30, 1935, approximately £4,900,000 had been paid in benefits to members. The invested funds amounted to £2,131,622.

An event of outstanding importance took place in 1912, when the business of the Co-operative Insurance Society Ltd. was transferred to the Co-operative Wholesale Society Ltd. and the Scottish Co-operative Wholesale Society Ltd. Following the acquisition of the C.I.S. by the C.W.S. and S.C.W.S., plans were formulated by the new management for a more vigorous policy of development. The plans included the appointment of a considerable number of additional full-time agents. Unfortunately the new plans could not be brought into operation owing to the outbreak of the World War. Before the termination of hostilities the management with a view to giving full effect to their ideas for development at the first opportunity took over the business of the Planet Friendly Assurance Collecting Society. Early in 1919 the opportunity arose and with a full-time agency staff approaching 500, the campaign for a greater volume of new business was launched in earnest.

In addition to their duties as insurance agents, the C.I.S. field staff have acted as first-rate propagandists among persons, to whom the benefits which are to be derived from the co-operative system of trading were unknown, and many Retail Societies have paid tribute to the success of the C.I.S. agents in introducing new members.

The premiums for life assurance fall within three distinct

groups : (1) Ordinary assurances for amounts of £25 and upwards, for which the premiums are paid at intervals of one, three, six, or twelve months. (2) Industrial, comprising small, medium, and large assurances, the premiums for which are payable at weekly or monthly intervals. (3) Free Life Assurance known as collective life assurance for members of co-operative societies. Introduced in 1904, collective assurance has proved an inestimable boon to many thousands in times of hardship besides providing a very active stimulus to co-operative trading.

Under the collective life assurance plan a single policy is issued to a Retail Co-operative Society, assuring the lives of all individual purchasing members, and the lives of the husbands or wives of such members. No medical examination of the members is required and no enquiries are made as to the age of the members. The premium is at the rate of  $1\frac{1}{8}$ d. for each £ of the individual member's purchases recorded in the last published balance sheet of the Society, and is paid by the insuring society on behalf of all the members. At  $1\frac{1}{8}$ d. in the £, the premium is equivalent to approximately 0.46 per cent. of the sales. If desired a society may effect a collective policy at a premium of 1d. in the pound on sales, but the method of calculating the benefits payable on death of persons over 64 years varies slightly.

In the ordinary and industrial life assurance sections profits are divided exclusively among the policy-holders after each of the annual actuarial valuations. Any collective life insurance profits are divided at the end of each financial year among the participating societies.

From 1889 to 1914, dividend was allowed on premiums paid in respect of societies' own fire and fidelity insurances. Societies which were members of the C.W.S. or S.C.W.S. received a dividend of 10 per cent. Non-member societies received 5 per cent. The dividends were calculated on the premiums paid during the preceding twelve months.

From 1915 to 1929 the dividend distribution was continued, the rates being 10 per cent. and 5 per cent. as formerly, but dividend was not allowed on fidelity premiums.



In the Motor Department reasonable surpluses have been made, and in 1930 the principle was extended to include premiums paid by societies for the insurance of their own motor vehicles. The dividend was calculated as follows :

Societies affiliated to the C.W.S. or S.C.W.S.

10 per cent. of the gross fire premiums.

12½ per cent. of the net motor premiums.

Societies not affiliated to the C.W.S. or S.C.W.S.

5 per cent. of the gross fire premiums.

6¼ per cent. of the net motor premiums.

The dividend was payable in respect of (a) fire premiums received during the preceding year, (b) motor premiums received during the current year, and restricted in both sections to the premiums paid by societies for the insurance of their own risks. The dividend distribution on fire and motor premiums remained unchanged until 1933, when the principle was further extended to include other classes of business, and the allocations were as follows :

12½ per cent. to members and 6¼ per cent. to non-members of the C.W.S. or S.C.W.S. on the net cash paid by them during 1933, for premiums covering their own risks. Dividend is not payable on premiums received from societies in respect of engineering insurance and house-purchase guarantee insurances. During the years 1934 and 1935, fire, motor and general premiums (with the reservations referred to above) ranked for dividend at the rates previously mentioned. Co-operative societies benefit still further as they are allowed a special discount of 10 per cent. from all premiums paid in respect of the insurance of their own risks. Motor, employers' indemnity, engineering, house-purchase guarantee and societies' mortgage insurance premiums are not eligible for discount. This special discount was introduced on May 1, 1934.

The Co-operative Insurance Society obtains most of its business from co-operative societies and their members. It undertakes at present all kinds of insurance. At the beginning of 1936 it has issued 580,788 policies for fire, 137,324 for accident and 158,235 for motor insurances.

A comparison of premiums collected and of the claims

paid during 1922 and 1935 gives the following results for the different branches of insurance :

<i>Life Assurance.</i>	<i>Premiums Collected.</i>		<i>Claims Paid.</i>		<i>Percentage of Claims paid in 1935 to Premium Income for that Year.</i>
	1922	1935	1922	1935	
	£	£	£	£	
Ordinary .	377,873	1,240,494	68,332	134,103	10·81
Industrial .	468,309	3,732,354	96,741	635,602	92·46
Collective .	503,591	476,253	529,772	440,332	17·02
<b>Total Life .</b>	<b>1,349,773</b>	<b>5,449,101</b>	<b>694,845</b>	<b>1,210,037*</b>	
Fire . . .	151,414	348,584	65,305	104,894	30·09
Accident (Personal)	8,589	112,628†	4,032	98,904	87·81
Employers' Liability .	87,562	128,719	39,019	80,866	62·82
General . .	107,361	106,441	43,182	34,892	32·78
Motor . . .	—	846,816	—	512,473	60·52
	1,704,699	6,992,289	846,383	2,042,066	

\* Death claims and annuities only.

† Included in this item is a sum of £90,291, in respect of a newspaper insurance contract. The claims under this contract absorbed 98·34 per cent. of the premium.

Life insurance is the most important of the C.I.S. activities. The Society has made great progress especially in industrial assurance, as can be seen from the following table :

#### POLICIES IN FORCE

	<i>Dec. 31, 1922.</i>	<i>Dec. 31, 1935.</i>	<i>Increase per cent.</i>
Ordinary Life Assurance . . .	153,849	206,772	34·40
Industrial Life Assurance . . .	943,626	4,587,296	386·13

NEW LIFE ASSURANCES EFFECTED

<i>Year.</i>	<i>Section.</i>	<i>No. of Policies.</i>	<i>Total Sums Assured.</i>
			£
1922	Ordinary . . . . .	12,158	807,928
1935	„ . . . . .	21,650	3,320,603
1922	Industrial . . . . .	676,391	12,166,857
1935	„ . . . . .	911,109	17,535,140

At December 31, 1935, the paid-up share capital of the C.I.S. amounted to £26,250. The shares are held exclusively by the Co-operative Wholesale Society and the Scottish Co-operative Wholesale Society. The assets of the Society have increased from £2,369,363 (1922) to £21,770,275 (1935). The principal channels of investment are, British Government, Indian and Colonial Government securities ; Railway Stock, Municipal and County securities in the United Kingdom, Public Utility Undertakings and Mortgages on property within the United Kingdom. The latter amounts to £3,755,645.

The progress of the Co-operative Insurance Society's business can be seen from the following figures :

<i>Year.</i>	<i>Premium Income. All Classes of Business.</i>	<i>Claims Paid during the Year.</i>	<i>Assets.</i>	<i>No. of Full-time Agents.</i>
	£	£	£	
1869 . . . . .	276	6	702	nil.
1890 . . . . .	9,608	3,143	38,358	11
1901 . . . . .	32,063	10,407	124,941	14
1915 . . . . .	309,015	185,817	683,000	75
1920 . . . . .	1,384,933	686,608	1,685,307	560
1930 . . . . .	4,548,689	2,160,966	11,807,517	3,458
1933 . . . . .	5,645,979	2,631,566	17,176,048	4,234
1934 . . . . .	6,340,191	3,057,791	19,398,789	4,558
1935 . . . . .	6,992,289	2,042,066	21,770,275	4,927

From the foregoing table it can be observed that after forty-eight years of operations the total of the premiums

received (in 1915) was only slightly in excess of 300,000 pounds, whereas twenty years later (1935) the premiums reached the impressive sum of nearly seven million pounds. Apart from the Chief Office at Manchester, the Society has an office in London, and branch offices at Belfast, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Newcastle, Nottingham, Plymouth and Southampton. In addition, there are 184 district offices and 4,927 full-time agents. The results for the last year of operation (1935) were very gratifying; the total assets of the society have increased by £2,371,486; premium income by £652,098, and total income by £716,601. Surrenders of life assurance policies amounted for the whole year only to £95,933, in the ordinary section, and £198,854 in the industrial section.

Co-operative insurance in the Irish Free State was not successful. The C.I.S. had been represented in the Irish Free State for many years, but owing to the unprofitable nature of the fire, motor, accident and general business the management decided, in 1932, to cease the transaction of business in that country. The decision to terminate all insurances which normally fell due for renewal on and after November 1, 1932, did not apply to life assurance contracts, but no new contracts have been or will be arranged.

#### SCANDINAVIA AND FINLAND

The consumers' co-operative insurance societies in Sweden, Norway, and Finland have a good deal in common and their activities can be analysed jointly. In all these countries life and fire insurance are subscribed by separate societies, in accordance with legal requirements.

#### *Origin and Organisation*

The Swedish Co-operative Movement has two insurance institutions: the fire insurance society "Samarbete", formed in 1908, and the life assurance society "Folket", established in 1914. Fire insurance was started first, because certain Swedish fire insurance companies were just at that time forming a syndicate for regulating insurance premiums, and there was apprehension that fire insurance

would as a result be made more expensive for the majority of small policy-holders. A secondary consideration was the possibility of gaining an economic advantage for co-operators : namely, the establishment through the accumulation of funds of a source of capital for promoting the interests of the co-operative movement. In accordance with the insurance law in Sweden, insurance business may be conducted under two forms of organisation—limited companies and mutual societies. The mutual societies, however, have to procure at the beginning of operations a guarantee capital which is intended to cover the initial losses, if such would be incurred. A mutual society is not permitted to carry on life assurance in connection with other kinds of insurance, with the exception of annuity. This stipulation has made it necessary for the co-operative movement in Sweden to establish a special life assurance society, "Folket" (the People). There was also another consideration of even greater importance in prompting the decision to organise "Folket" : namely, the fact that life assurance is in a far higher degree adapted to the accumulation of large funds, which could be used in the interests of the co-operative movement. The main reason, however, for the foundation of "Folket" was the very unsatisfactory state of working-class insurance in Sweden, a state which, as will be shown, has been considerably improved by the activities of "Folket".

The two co-operative insurance societies are legally organised as mutual societies and the Swedish Co-operative Union has subscribed a guaranteed capital of 1,000,000 Kr. for "Samarbete" and 600,000 Kr. for "Folket" ; in both cases interest being charged at the rate of 5 per cent. To secure democratic control and efficient administration the insurance offices have been linked with the Co-operative Union. The delegates to the annual meetings of the insurance societies, for which only policy-holders are eligible, are elected by the Congress of the Co-operative Union, the directors of the insurance offices being appointed by the Central Board of the Co-operative Union, which also supervises their administration.

When "Samarbete" was organised in 1908, it was favoured by the circumstance that its clientele happened to be distributed over large sections of the country and involved very small risks. This constituted an important loss-equalising factor at the time. After nearly ten years of activities the society had attained so high a degree of stability that it became feasible to extend its operations, and from 1917 onwards "Samarbete" started to underwrite risks on moveable property. "Samarbete" originally carried on only fire insurance, but since 1925 it has been extended to include accident insurance, motor-car insurance (compulsory since January 1, 1930, as regards third-party risks), guarantee, burglary, liability, and several other branches of insurance. For administrative purposes the two societies may be considered as a single enterprise, with one and the same Board of Directors, the same managers, a common head office, and as far as practicable the same organisation for the collection of premiums.

In Norway the consumers' co-operative movement formed in 1921 the co-operative insurance society "Samvirke".<sup>1</sup> The Society started operating mainly in fire insurance, but in 1930 a special life insurance society "Samvirke" was also organised. The societies have been employing in 1935 1,400 agents.

In Finland the general conditions for the establishment of consumers' co-operative insurance institutions were very complicated. The movement has been split into two parts. One group calls itself the "progressive", the other the "neutral". Both of these two parts have their own central organisation, *viz.* a propaganda central (Union), a wholesale society and central productive enterprises. Each of the two unions to which the distributive co-operative societies of Finland are affiliated has formed a life insurance society and a fire insurance society attached to it. The General Co-operative Union of the "Neutral" group has established the fire insurance "Tulenvara" (1910) and the

<sup>1</sup> See the *Report of Norges Co-operative Landsforening*, pp. 23-4. Also Dr. Mario Battistoni, *Il Moviment Co-operativo in Norvegia*, 1926, p. 43. The *Report of N.K.L. for 1931*, p. 25.

life insurance society "Pohja" (1923). The Central Union of the "Progress" group has affiliated to it the fire insurance society "Tulenturva" (in 1920) which is since 1927 called "Kansa" and another "Kansa" company for life insurance (1923).

Co-operative insurance was started in Finland<sup>1</sup> in 1910 when the "Tulenvara" was formed. There were two main motives for its organisation: firstly, private insurance companies had made difficulties for the insurance of co-operative property of the consumers' societies and the latter desired to free themselves from exploitation by private insurance organisations; secondly, the pioneers of co-operative insurance had a firm belief that by eliminating the high profits of the private companies they would be able to subscribe insurance at much lower rates and thus bring insurance within the reach of the working population. These expectations were fully justified. "Tulenvara" has made rapid progress: in 1924 87 per cent. of the "neutral" co-operative consumers' societies were amongst its members and policy-holders. Joint guarantee and careful collective supervision of the risks subscribed resulted in a considerable decrease of claims and made possible the reduction of premiums. The fire insurance society "Kansa" operated at first<sup>2</sup> in conjunction with, and as a department of the Co-operative Wholesale (O.T.K.), though as a separate legal entity, and its main task was to insure the property of the consumers' co-operative societies of the "Progress" group and their central organisations against fire. This explains the comparatively slow development of the Society during the first few years of its existence. "Kansa" has also issued fire insurance policies to private individuals, but as very few agents were appointed the work of securing private clients was conducted on a very small scale. However, when the Life Assurance Society "Kansa" had got under way and had been able to organise its network of agents, the business of the "Kansa" (fire) was closely combined

<sup>1</sup> P. Molin, *Le Mouvement Cooperative en Finland, son role economic social*, Paris, 1928, pp. 160-4.

<sup>2</sup> Until 1927 under the name "Tulenturva."

with that of life. In 1927 a joint Administrative Board and a joint Board of Directors were elected for the two institutions. At the same time, the general manager of the life assurance society "Kansa" was appointed general manager of the fire insurance society as well, and some other officers were also given joint appointments in both institutions. All the insurance activities of the two "Kansa" societies are thus in fact combined in one institution. Legally, however, two separate units still exist, for in Finland the same institution is not allowed to insure both property and life.

The fire insurance society "Kansa" (Finland) is a co-operative society with collective (114) and individual members. Its fire insurance business comprises principally insurance of the co-operative societies' property and also insurance of factory workers' and small farmers' property. Accident insurance policies are issued to distributive societies and small employers. In addition to consumers' societies and their central organisations, private policy-holders are also members of the society. At the society's annual meeting each member is entitled to one vote for every unit of 10,000 Finnish marks of the sum insured, or part thereof. Consequently, the consumers' societies and their central organisations have a large number of votes and the individual policy-holders, scattered throughout the country, do not usually attend the annual meetings, and are content with the fact that they as members of the respective consumers' societies, take part in the election of the representatives of their society to the general meeting of "Kansa". The members subscribe to the share capital of the society in proportion to the sums insured. However, as the capital has reached F.Mk. 1,500,000, the limit stipulated by the rules, it is no longer being increased. But reserve funds are still being accumulated by the transfer of the total annual surplus to the funds. Besides, the consumers' societies as well as their central organisations are obliged to provide an additional guarantee of F.Mk. 50 for every thousand marks of the sum they have insured. A guarantee fund, amounting to over F.Mk. 20 million, has been built up in this way. The society operates through a wide net of individual agents



—1,300 being employed in the fire and 700 in the accident branch. No business is subscribed through collective agents. In 1934, the acquisition and management costs absorbed 29 per cent. of premium income in the fire branch and 30 per cent. in the accident branch. "Kansa" does not subscribe reinsurance operations. The business makes a steady progress: though "Kansa" is a medium-sized company it is one of the first in regard to financial stability.

The mutual life assurance society "Kansa" was established in 1923. The Finnish life assurance companies offered the working population mainly expensive industrial policies, which in Finland are called "people's assurance", *i.e.* assurance of people of small means, the premiums being payable weekly or monthly. These premiums were about 30–60 per cent. higher than those of ordinary policies. "Kansa" did not subscribe this kind of insurance at all, but, on the contrary, began to issue small policies to working people, the premiums being payable annually, semi-annually and quarterly. The rates of these policies were as low as the annual premiums in the ordinary assurance of other companies. "Kansa" has a share capital of F.Mk. 10 million, 2 million marks of which have been fully paid up, the other 8 million marks being guaranteed. According to the Articles of Association of the society, its shares may be owned only by consumers' societies and by their co-operative central organisations. The shares were distributed among the consumers' societies in proportion to their membership. The central organisations hold a certain number of shares, which are transferred to new consumers' societies or to old ones when their membership has shown a comparatively more rapid growth than that of the distributive societies in general. At the annual meeting the shareholding societies are entitled to vote in proportion to the number of shares they hold, with a sliding scale employed for the largest shareholders.

At the beginning of 1934 a new law for insurance companies came into force in Finland, according to which all insurance institutions must within one year of their formation register under company rules. When the new law took effect the two "Kansa" societies were obliged to alter

their articles of association. While this was being done, the statutes were revised as a whole, and other alterations were made besides those required by law. In the assurance society "Kansa" funds, the reserve funds that have accumulated from the annual net surpluses amounted to F.Mk. 15 million—to a sum about three times larger than that stipulated by law. Consequently it was decided to pay back the share capital to the co-operative organisations, and to relieve them of their guarantee liabilities. According to the law, then, the institution has thus been changed from a joint stock to a so-called mutual society. The mutual character of the company had also to be indicated by its name. Consequently, the name had to be changed, and this institution is now known as the Mutual Life Assurance Society "Kansa" (Keskinsainen Henkivakuutusyhtio Kansa).

Every co-operative society and co-operative central organisation which is a policy-holder in the company and a member of the Central Union of Distributive Societies (K.K.) is a shareholder of "Kansa". The shareholders have no claim on the property of the company. The surplus or other property can be used for the benefit of the persons insured only. The societies' management organs are: (a) The Board of Directors, (b) the Board of Administrators, and (c) the annual meeting. The Board of Directors is composed of the General Manager and 4 members, and 2 deputies. The Board of Directors is elected by the Board of Administrators for one year. The Board of Administrators consists of 12 members, elected for three years by the annual meeting. At the annual meeting the shareholders have votes in accordance with the number of members as follows: one vote per 200 members up to a membership of 5,000; for members in excess of 5,000, one vote per 500, and for all in excess of 10,000, one vote per 1,000.

"Kansa" occupies the third place amongst the seven life assurance companies in Finland in regard to the number of policies issued and the fifth in regard to the sum assured. The society subscribes insurance amongst industrial and farm workers and small farmers. Business among farmer-owners, in a proper sense of the word, is inconsiderable.

The business of the company is rapidly progressing. The amount of fresh business during 1935 shows an increase of 30 per cent. over the figures in 1934. The total number of agents is over 3,800. The number of lapsed policies is small; during 1934 it was 3,176, with an insured sum of F.Mk. 32,900,255. In 1935 the acquisition and management expenses amounted to 21 per cent. of premium income.

The fire insurance society "Kansa" founded in accordance with the law for fire insurance societies, now repealed, has also changed its articles of association into those of a mutual company, with the name of Mutual Fire and Accident Insurance Society "Kansa" (Keskinsainen Palo-ja Tapaturmavakuutusyhtio Kansa). Its shareholders, too, consist exclusively of consumers' co-operative societies and their central organisations, and its annual meeting is composed in the same way as that of the "Kansa" Life Assurance Society. The operations are divided between two different departments, the fire and the accident; the society may carry on reinsurance operations, with its own branches at home as well as abroad. For covering an eventual loss the shareholding co-operative societies are under an obligation to pay an additional sum not exceeding ten times the amount of the premiums paid during the year in which the loss occurred. This guarantee sum for the year 1935, for instance, would have amounted to more than F.Mk. 20 million, but the individuals insured are exempt from all additional liabilities. The additional liabilities as well as the guarantee capital may not, however, figure in the balance sheet. In addition to the insurance funds the company has its own funds, amounting to approximately F.Mk. 9 million, or to about 3 million F.Mk. more than that required by the law; F.Mk. 17,500,000 was supplied as an initial fund during the company's first year of operations by the members (consumers' societies) and in proportion to their fire insurances. The rest has been accumulated from the annual surpluses.

### *Financial Position*

The financial position of the Scandinavian co-operative insurance societies is very strong. The Swedish co-operative

insurance societies lead the way. The total fire and property insurance subscribed by "Samarbete" has risen from 12,200,000 Kr. in 1908 to 2,028,500,000 Kr. in 1935, the number of policies increasing accordingly from 6,238 to 266,985. The number of policies issued by Folket has grown from 11,141 in 1914 to 206,373 in 1935, and the value of insurance in force from 11,211,045 Kr. to 255,497,357 Kr. The development of business can be easily appreciated by the increase of the premium income. The premium income of "Samarbete" has increased from 34,012 Kr. in 1914 to 6,597,178 Kr. in 1934. Out of this sum 2,566,000 Kr. are paid for fire and 4,031,178 Kr. for other insurance. The premium income of "Folket" has grown from 310,611 Kr. in 1914 to 8,831,012 Kr. in 1935. Both societies have increased their combined premium income since the beginning of their operations more than 50 times: from 344,623 Kr. to 15,734,000 Kr. Newly opened branches have had great success as regards the increase of the volume of operations, though the surplus on these has as yet been comparatively small. With the premium income now attained, co-operative insurance in Sweden has, through its centralisation, taken its place among the big companies in the country. Moreover, it is not only the premium receipts that have increased but the amount of claims paid, as can be seen from the following comparative figures.

CLAIMS PAID  
(in Kronor)

Year.	Folket : Life.	Samarbete.			Both Societies.
		Fire.	Other Branches.	Total.	
1926 .	664,182	706,057	776,090	1,482,147	2,146,329
1929 .	1,039,155	1,047,077	1,650,915	2,697,992	3,737,147
1934 .	1,853,504	949,000	2,417,090	3,366,090	5,219,594

These large figures for insurance subscribed and claims paid show that co-operative insurance in Sweden is an important supplementary service to the other activities of

the Co-operative Movement : under the scheme of collective accident insurance alone, as an addition to social insurance, co-operative insurance paid not less than 16,000 claims yearly. There are also many other benefits, which co-operative insurance accords to its policy-holders : exemption from paying premium in case of illness is the most important. In the case of unemployment and labour disputes a respite from payment of premiums up to one year is also given on very easy conditions of gradual repayment.

These additional benefits to policy-holders often exceed the formal liabilities which the co-operative insurance societies in Sweden have taken upon themselves under the articles of association, but in spite of this fact the surpluses are increasing all the time as can be seen from the following table :

SURPLUS  
(in Kronor)

<i>Year.</i>	<i>Folket.</i>	<i>Samarbete.</i>	<i>Both Societies.</i>
1926 . . . . .	645,017	524,235	1,169,252
1929 . . . . .	819,069	730,188	1,549,257
1934 . . . . .	885,108	1,124,494	2,009,602
1935 . . . . .	821,181	1,195,380	2,016,561

As a result of moderate expenses and good management the total surplus during the last eight years has been nearly doubled, allowing a very considerable consolidation of the resources of the societies.

GROWTH OF RESOURCES  
(in Millions of Kronor)

<i>Year.</i>	<i>Insurance Funds.</i>		<i>Other Funds.</i>		<i>Total.</i>		<i>Total for both Societies.</i>
	<i>Folket.</i>	<i>Samarbete.</i>	<i>Folket.</i>	<i>Samarbete.</i>	<i>Folket.</i>	<i>Samarbete.</i>	
1926	23.0	1.3	2.1	4.1	25.1	5.4	30.5
1929	33.4	2.3	4.4	6.0	37.8	8.3	46.1
1934	55.6	7.6	8.6	10.8	64.2	18.4	82.6

It should be mentioned that the insurance funds of "Folket" are calculated on a strict actuarial basis. They

have increased during the last eight years two and half times. The allocations to the bonus-reserves of insured persons have equalled approximately 25 per cent. of the premiums paid under insurance policies entitled to dividend, and the bonus-reserves of the policy-holders have increased nearly seven times during the last eight years.

The Finnish co-operative insurance societies have also achieved great success. The fire insurance society "Tulenvara" had in 1910 after one year of operation F.Mk. 6,775,645 of insured values and its capital and reserves amounted respectively to F.Mk. 9,244 and 177,520. In 1932 the capital had grown to F.Mk. 1,500,000, reserves to F.Mk. 15,280,347, total values insured amounted to F.Mk. 1,613,308,000, premium income to F.Mk. 4,837,000, and the claims paid to F.Mk. 5,739,000. In 1934, the "Tulenvara" had to carry out some alterations in its capital structure to conform with the new insurance law and changed its activities to cover automobile risks.<sup>1</sup> The values covered by the society's fire insurance branch amounted to F.Mk. 1,692,000,000, and it paid out F.Mk. 433,160 in respect of fire claims and F.Mk. 52,760 in respect of motoring claims. The surplus amounted to F.Mk. 580,695.<sup>2</sup>

The fire insurance society "Tulenturva" increased the number of policies issued from 1,113 (in 1920) to 12,466 (in 1926), and the sum assured accordingly from F.Mk. 11,800,000 to F.Mk. 705,000,000.<sup>3</sup>

The life insurance company "Pohja" (Finland) has made very good progress. It started in the first year of its operation in 1924 with F.Mk. 98,058,650 insurance subscribed and F.Mk. 4,314,874 collected in premiums. The tariffs of "Pohja" were from 3 per cent. to 12 per cent. lower than that of the ordinary insurance societies. At the beginning of 1936 "Pohja" had subscribed F.Mk. 1,059,000,000 for 1935 of insurance; its own funds amount to F.Mk. 12,900,000.

<sup>1</sup> Since 1935 this society has changed its name to "Vara".

<sup>2</sup> *R. of I.C.*, 1935, No. 4, p. 148.

<sup>3</sup> Since 1927 this society has changed its name to "Kansa".

The development of the three main lines of activity of "Kansa" (Finland) life, fire and accident insurance can be seen from the following figures: the fire insurance business of "Kansa" had increased from 1,113 policies with F.Mk. 111,782,925 (in 1920) to 42,317 policies with F.Mk. 1,719,258,840 (in 1934), of which F.Mk. 626,044,000 were reinsured with other societies. Premium income has increased concurrently from F.Mk. 248,808 to F.Mk. 4,697,426 and claims paid from F.Mk. 551,169 to F.Mk. 1,622,232. The society has paid for reinsurance during 1934 F.Mk. 737,601. The profits of the fire insurance branch of the society have grown tremendously from F.Mk. 27,457 (in 1920) to F.Mk. 771,579 (in 1934). In the accident insurance branch the number of policies has increased from 4,668 (in 1926) with 20,595 insured for F.Mk. 154,382,100 to 8,353 (1934) policies with 36,468 insured for F.Mk. 228,388,000. This branch had made a surplus for 1934 of F.Mk. 266,649. The surpluses are transferred to reserve funds. The total assets of the society amounted at the beginning of 1935 to F.Mk. 21,470,104, out of which F.Mk. 8,019,321 were own funds and F.Mk. 13,284,728 insurance funds.

The life insurance society "Kansa" subscribes ordinary individual life assurance, collective life assurance of the persons employed in the consumers' co-operative societies and funeral-aid insurance for the members of these societies. Total assurances in force as on December 31, 1934, were as follows :

	<i>No. of Policies.</i>	<i>No. of Insured Persons.</i>	<i>Sum insured. F.Mk.</i>
Individually . . .	84,996	84,996	703,919,294
Collectively . . .	62	5,731	41,063,000
Funeral-aid . . .	104	105,921	52,960,500
	<u>85,162</u>	<u>196,648</u>	<u>797,942,794</u>

The member-societies, *i.e.* the distributive societies and their central organisations, number 114. The collective and funeral-aid policies are issued to the employees of the distributive societies and of the central organisations, and to the individual members of these societies.

The total assets of the society at the beginning of 1935 were F.Mk. 108,112,310; the guarantee fund amounted to F.Mk. 4,000,000 and other reserves and funds to F.Mk. 13,020,878; insurance funds amounted to F.Mk. 89,222,958. Premium income received for 1934 was F.Mk. 21,390,566, claims paid F.Mk. 4,675,108, and surrenders F.Mk. 1,472,816; overhead expenses amounted to F.Mk. 5,708,686 and the insurance funds were increased during 1934 by F.Mk. 13,422,025; the surplus amounted to F.Mk. 2,709,650.

The paid-up capital of the fire insurance society "Samvirke" (in Norway) amounted at the beginning of 1935 to 426,069 Kr. and reserves to 115,000 Kr. In 1934 the premium income was 527,682 Kr. and the claims paid 209,812 or 40 per cent. The total sum insured has increased from 114,252,429 Kr. (in 1929) to 144,937,864 Kr. (1934) subscribed on 23,875 policies. Out of 114,252,492 Kr. 19,600,000 Kr. (17 per cent.) was covered by joint insurance with other societies. The capital of the life assurance society "Samvirke" was at the beginning of 1936 400,000 Kr. and different reserve funds 1,734,121 Kr. The society has developed well during the short period of its existence; total of life assurance in force was at the beginning of 1936 23,557,574 Kr. and collective pension insurance 1,611,263 Kr. During 1935 applications for new life assurance policies were made for 7,630,101 Kr. Premium income for 1935 amounted to 893,688 Kr.

### *Social Achievements*

The social achievements of the insurance societies in Scandinavia and Finland are very considerable. Before the foundation of "Folket", life assurance of workmen in Sweden was based on the system of monthly and weekly premiums. This made insurance dearer and lessened the number of insured. "Folket" has been an innovator in Sweden by offering insurances to the working class at about the same cost as to the middle class. Since the system of weekly premiums presented a charge of 10 per cent. on the annual premium the measure adopted by "Folket" was an important



social concession. The practice of the institution has proved that this system can be maintained. At present "Folket" has about three-quarters of its portfolio in quarterly premiums, and only 8 per cent. in monthly premiums. "Folket" operates on the principles of social service, its aim being to serve policy-holders, and the surplus must be spent exclusively in their favour; this has been effected by the reimbursement of premiums and participation in the profits. An increased payment is usually made, as far as possible, at the expiration of the insurance policy so as to strengthen the effect of the insurance guarantee. In case of illness, especially such illness as tuberculosis, "Folket" offers to the insured help of such a substantial character as to afford a chance for recovery of health. This help is accorded in the form of a loan, free of interest, which is redeemed by annual instalments. Life insurances of "Folket" are often supplemented by a complementary insurance which secures the exemption from payment of premiums in case of illness or invalidity, thus providing the insured with protection in such contingencies. In 1929 the company reduced its premiums in consequence of a lower mortality rate. "Samarbete" has applied the same policy as "Folket" and its insurance activities have the same purpose. In order to minimise the cost, a systematic programme of reduction of the premiums payable is effected in every branch of insurance when statistics prove that they are higher than they should be; this reduction is put into effect even when it is not demanded by the insured. Recently, premiums payable in individual accident and burglary insurance, for instance, have been reduced by 20 per cent. The premiums of collective insurance have been lowered also for those occupations in which they were higher than they should have been. The "Samarbete" allows on third-party motor insurance a reduction of 10 per cent. below that of any other insurance company operating in Sweden.

The two companies have been employing their funds in the co-operative trading institutions and enterprises, thereby increasing the productivity of co-operative trade

and production, and have in this way diminished the cost of living. The Swedish co-operative societies have, however, during the last ten years strengthened their reserves to such an extent that the capital of insurance companies has become of less importance for the movement, since consumers' co-operation itself possesses sufficient capital, even though the demand for industrial and commercial purposes has increased during recent years. The co-operative insurance societies had then to invest their funds elsewhere while still observing the principle that these funds must serve as far as possible the needs of the insured ; they invest them in the building of dwelling-houses and institutions for municipal administration. Also, co-operative education is fostered by "Folket" and "Samarbete" by an annual grant of 25,000 Crowns for a period of ten years to the co-operative school "Vår Gärd" at Saltsjobaden near Stockholm.

"Kansa" (Finland) subscribes fire insurance at rates which are up to 50 per cent. lower than those of other insurance companies, especially for rural co-operative organisations ; the rates for accident insurance policies are 20 per cent. lower. The premiums of "Kansa" Life Assurance Society are the same as those of other companies, but the rates for collective assurance are 10 per cent. cheaper ; with regard to funeral-aid "Kansa" is the only society in Finland subscribing this kind of insurance. "Kansa" pays 6 per cent. on paid-up share capital and employs its surpluses for the consolidation of reserves, and for distribution among the insured. It pays in the case of death or on the expiration of the policy, an addition of 15-20 per cent. on the sum of the policy (bonus-policies). The distribution of the surpluses for the last three years can be seen from the following table :

	1932. <i>F.Mk.</i>	1933. <i>F.Mk.</i>	1934. <i>F.Mk.</i>
Gross surplus . . . . .	3,943,339	4,495,506	5,141,613
Bonus granted before balancing the books . . . . .	1,559,193	1,967,243	2,431,963
Rest transferred to the company's own funds . . . . .	2,384,146	2,528,263	2,709,650

“Kansa” has also organised a “Social Department” and has introduced insurance covering the funeral expenses of the members of the co-operative societies, and has set up a general life assurance fund for the benefit of the staff.

## CHAPTER VI

### CO-OPERATIVE LABOUR INSURANCE INSTITUTIONS

THE old tradition of insurance benefit beginning with the guilds of the Middle Ages and the employers' efforts to operate group insurance as a powerful weapon against organised Labour have stimulated the organised working class to undertake insurance activities on modern lines. Historically, labour organisations have always accorded to their membership life assurance facilities. Death benefit, even though only in the form of funeral benefit, was probably the first and most popular kind of insurance. Under the most diverse cultural and political conditions working-class organisations have tried to introduce life assurance in its various forms as an important part of their activities. The extent of the benefit was often small and the cost very high, the benefit promises were too large for fulfilment, and the whole system was often crude and difficult to operate. Nevertheless, this particular social service always attracted the attention of the working population and its organisations. It was quite natural for trade unions, initiated as self-help associations of workers, to care for the dependants of its deceased members. Benefit schemes were, however, generally drawn up without proper investigation of costs. These were usually low in the first years when the membership's average age was fortunately young and the death rate comparatively low. With the passage of time, however, both the average age and the death rate increased progressively, with the result that trade unions could not often redeem the pledged death benefits without either increasing members' payments or lowering benefits themselves. Strange as it may seem, in spite of the failure of many workers' organisations to meet the promised benefits, owing to their ignorance of insurance principles and practice, fresh mutual schemes have been continually launched by people who are un-

familiar with the mistakes and shortcomings of their predecessors. If the working population is to be satisfactorily served in this matter, their co-operative or collective mutual-aid institutions for insurance must be organised on sound scientific principles. The best method to meet these requirements is the organisation of co-operative labour insurance institutions, which should be formed by consumers' co-operative societies jointly with the trade union organisations.

The actual development of co-operative labour insurance has, however, often taken another course. Its evolution was very similar to that of co-operative credit. In some countries where the co-operative movement was strong and well connected with labour organisations, it undertook the organisation and management of the financial and insurance activities of the labour movement in general. In other countries, such as Germany, Switzerland, Hungary, Holland, Belgium, U.S.A. and Palestine, trade unions and labour parties have established credit and insurance institutions in combination with the Co-operative Movement or independently. These developments have taken four main forms: (a) joint co-operative and trade-union insurance societies (Germany, Switzerland, Hungary, Czechoslovakia and Spain), (b) special banking-insurance institutions of the labour movement (Holland), (c) joint insurance institutions formed by a labour party (Belgium) or the central labour body for the whole working population of the country (Palestine), and (d) co-operative insurance societies formed by the trade unions (U.S.A.).

#### A. CO-OPERATIVE-TRADE-UNION INSURANCE SOCIETIES. ORIGIN AND DEVELOPMENT

The "People's Welfare" Co-operative and Trade Union Insurance Society in Germany ("Volksfürsorge" Gewerkschaftliche Genossenschaftliche Versicherungs Aktien Gesellschaft), the oldest organisation of this type, was established in 1912 to improve the unsatisfactory conditions of popular life insurance. The private companies operating in popular insurance (Volksversicherung) were in keen

competition with each other. To secure more business, they paid high commissions to agents and spent large sums on advertising. These expenses, coupled with high dividends, made insurance very costly. High costs notwithstanding, the insured were not protected in the event of their being unable to continue the payment of premiums. They were often persuaded by the agents to subscribe much higher policies than they could maintain regularly with the result that, when industrial or other conditions deteriorated, payment ceased and millions of marks were lost to the policy-holders. The refund of even a part of the premium in cases of suspension of payment was opposed by the private companies at that time, and the contraction of the policy to an amount covered already by the premiums paid could take place only after three years of insurance. Many years' discussions about possible reforms eventually moved the co-operative and labour organisations to act independently. In 1911 resolutions were passed simultaneously by the Leipziger Congress of Co-operative Consumers' Societies and by the Dresdener Trade Union Congress in favour of establishing an insurance organisation to be jointly managed by the "Free Trade Unions" and the consumers' co-operative movement and, as a result, "Peoples' Welfare" was established, commencing activities in July, 1913. The second German Society, the "Self-help" (Eigenhilfe), was formed in 1926 by co-operative consumers' societies and trade unions for fire and other property insurance. It was considered advisable for legal and technical reasons to establish a special society and not to conduct these activities through special departments of the "Peoples' Welfare". After the establishment of the National Socialist Government, both societies were reorganised and put under direct National Socialist Party control. The activities of "Self-help" were continued by the "Peoples' Welfare General Insurance Society" ("Volksfürsorge" Allgemeine Versicherungs Aktiengesellschaft, Hamburg). Since September, 1933, there is a personal union between the Management Boards and the Council of Administration of the two "Peoples' Welfare" societies.

The second oldest society of this group—the Co-operative Life Insurance Society “Peoples’ Welfare” (“Volkfürsorge”) in Switzerland—was founded by the Swiss Union of Co-operative Consumers’ Societies in December, 1917, for life assurance and insurance against old age, invalidity and death. The founders of “Peoples’ Welfare” aimed at cheapening the cost of insurance and enabling the working population to take advantage of insurance services.

The third society of this group, the “Corvinia” Co-operative Insurance Society in Hungary, was established in 1922 by the “Diligentia” Savings Bank, the General Consumers’ Co-operative Society of Budapest and the trade unions. It covers life, fire, accidents and other branches of insurance.

The formation of a joint trade union and co-operative insurance institution in Czechoslovakia has taken place on lines similar to that of Germany. The German co-operative societies in the Czechoslovakian Republic made determined efforts some years ago to form their own insurance institution. But only recently did they obtain the consent of the Government to establish an independent insurance institution. It bears the name of “Vorsorge” (“Welfare”) General Insurance Society and has its headquarters in Prague. It is the joint enterprise of the trade unions and the co-operative societies and a provision was included in the statutes that shares should not be negotiable on the Stock Exchange, and that the transfer of shares to other bodies or persons than the present holders should be carried out only with the consent of the Board of Directors. The non-profitmaking character is demonstrated by the fact that not more than 5 per cent. dividend may be paid on the share capital, and any further participation of the shareholders in the profits is forbidden by the Articles of Association. The members of the Board of Directors will also receive no commissions. All surpluses made must, after the necessary provision for reserves, be paid back in full to the policy-holders in the form of bonuses. The “Vorsorge” strives, as far as possible under the present law, to make the capital under its control available for the

strengthening of trade union or co-operative undertakings, or for the promotion of co-operative house-building schemes. The Articles of Association permit the "Vorsorge" to subscribe all types of insurance allowed by law.

It regards as its chief function, however, the systematic extension of modern industrial assurance, the ground for which has not yet been sufficiently prepared in Czechoslovakia, but for which there is generally considered to be a need. Premiums are calculated low, and conditions are favourable. No extra premiums for dangerous occupations (such as mining, chemical works, etc.), which are so unpopular with the workers, will be charged. The right to claim repayment in case of the policy being given up before maturity or to cease payments and receive a smaller sum on maturity, will be available to the insured within one year from taking out the policy instead of only after three years, as is the case with most ordinary companies in Czechoslovakia. The participation of policy-holders in the profits will be arranged according to just and approved co-operative principles. All profits credited to the policy-holder from year to year will accumulate at compound interest and be added to the sum due on maturity, which thus will be considerably augmented. Finally, the "Vorsorge" has established another novel and valuable principle which removes the last argument of the worker or employee against taking out an insurance policy, namely, that it is impossible to pay premiums during prolonged unemployment. If "Vorsorges'" policy-holder becomes unemployed he can let his industrial assurance policy stand as a no-premium insurance for a reduced sum and take out an unemployed worker's supplementary policy, which will assure his dependants a modest payment in addition to the proceeds of the reduced policy. On re-entry into employment the supplementary policy will be suspended, and the original policy will come into force again without any payment of back premiums. The activities of the society will not be limited to the workers, employees and civil servants organised in trade unions or co-operative societies, or to the German-speaking section of the population.



## ORGANISATION

The "Peoples' Welfare" (Volksfürsorge) in Germany was established as a limited company with a capital of 1 million Marks, enlarged in 1921 to 5 million Mk. This capital has been fully paid up, half having been supplied by the free trade unions and the other half by the consumers' societies. The organs of management and control, the Executive Committee and the Supervisory Committee, were composed of an equal number of representatives of both groups. The shareholders and managers do not participate in profits, whilst on the other hand insured members take no part in the management. The persons insured need not be members of trade unions or co-operative societies.

In accordance with its Articles of Association "Self-help" ("Eigenhilfe") is a co-operative central institution, but membership is open only to co-operative and similar economic organisations affiliated either to the Central Union of Consumers' Co-operative Societies or to an Auditing Union. "Self-help" is managed by a Board of Directors with a minimum membership of four, who are elected and can be recalled by the Council. The members of the Board are not allowed to serve on bodies of any other competitive society without the approval of the Council. The Council, consisting of 8 to 18 members, is elected by the general meeting, every four years; every two years one-half of the Council resigns in the order of their entry. The Council supervises the Board in all important business and especially in the transfer of shares, in mortgage operations, in the organisation of branches, auditing, in distribution of profit, employees' contracts, planning of business policy, and in the appointment of higher officers. The society is governed by the general meeting, which elects the council and approves the general scheme of operations.

"Self-help" has a close personal contact with the "Peoples' Welfare" by the interlocking of their Boards. The society may undertake insurances at its own risk up to a 50,000 Marks limit and higher risks have to be reinsured. The share capital of "Self-help" was 3 million Mk., divided into 3,000 shares, of 1,000 Mk. each, of which 250 Mk. were

paid up, the Council having the right to call in the balance of 750 Mk. or part thereof. It is the Council's duty to call new payments in when the balance sheet shows a loss amounting to one-half of the paid-up share capital, in which case payments must be on such a scale as to fully cover all losses. The shares are indivisible and nominal, and transferable only with the approval of the Board and the Council. Each share carries one vote and the number of votes to which one shareholder is entitled is unlimited.

The foundation fund of "Peoples' Welfare" in Switzerland of 100,000 francs and the guarantee capital of 250,000 francs were subscribed by the Swiss Union of Co-operative Consumers' Societies. The guarantee capital was provided free of interest for the first five years, after which period it has to bear 5 per cent. interest and will be redeemed by annual instalments provided the funds of the society allow it. The Board has the right to augment the guarantee capital at its discretion, and all the member-societies can be called upon to subscribe to it. Out of the yearly surplus, at least 10 per cent. must be put aside to reserves till they reach one-fiftieth of the difference between the insurance reserves (*Deckungskapital*) and the total amount insured. As the "Peoples' Welfare" in Switzerland has no share capital, its membership is based on the principle of policy-holding. Every individual or legal person can be a member of the insurance co-operative society on signing an insurance contract for himself or other people. Membership lapses with the expiry of the insurance contract or by its transfer to another person. The society is managed by a Board comprising at least 15 members, 5 of whom are delegated by the Union of Swiss Consumers' Societies and 10 of whom are elected at the General Meeting of the Insurance Society. Members have one vote for each insurance contract. Proxies are allowed, but no member can have more than one-tenth of votes present at the General Meeting.

#### ACTIVITIES

The aim of "Peoples' Welfare" in Germany was to subscribe life insurance in different forms, on a non-profit

basis. The "Peoples' Welfare" endeavoured to offer more liberal conditions and lower premiums than ordinary insurance companies, and it has succeeded in doing so by economising on management costs. Thus, agents' commissions do not exceed 6 per cent. of the sums insured, or 5 per cent. of the premiums paid. The co-operative character of the company finds expression in three features: limitation of dividends, which can never exceed 4 per cent.; exclusion of officers and officials from participation in the profits; in treating the insured members in such a manner that they do not lose any sum paid in premiums, and indemnifying them reasonably if the contingency against which they have been insured occurs. Steps have been taken to render impossible the absolute loss of a policy. If after one year's insurance, the insured person ceases to pay his premiums, his policy is converted into a reduced paid-up policy and the capital thus insured is calculated on the basis of the premium already paid. Even if payment of premiums ceases during the first year of insurance, the policy is automatically converted into another kind of policy. Thus, by paying premiums, the amount of which is fixed by himself, the insured person gradually accumulates a deferred capital (*Spaarversicherung*-savings insurance).

In the first years of its operations, the "Peoples' Welfare" had to sustain a sharp struggle against other German insurance societies which tried their best to stop the development of the new institution. Competition came not only from the private companies, but also from various fraternal societies, burial societies, death cash-offices, etc. Even some trade unions formed insurance societies in competition with the "Peoples' Welfare". But in spite of the keen competition the progress of the institution was very rapid.

"Peoples' Welfare" subscribed insurance up to 3,000 Mk. with monthly premium payments of 1 Mk. It issued also insurance policies on a larger scale up to 10,000 Mk. with quarterly payment of not less than 20 Mk.

"Self-help" subscribes mainly fire and burglary insurance. Its co-operative character manifests itself in the method of profit distribution. The shareholders are paid 5 per cent.

interest, further or additional interest payment not being allowed. A minimum of 5 per cent. is transferred yearly to two funds, general reserve fund and organisation fund, till they reach 50 per cent. of the share capital. The rest of the profits is transferred to other reserve funds.

“Peoples' Welfare” in Switzerland subscribes individual and collective insurance for the members of consumers' societies, trade unions, burial societies and other organisations. Its work is carried out in collaboration with co-operative societies, trade unions and other labour organisations. This has enabled it to reduce very considerably the cost of commission and administration and to continue policies of insured persons who cease after two years to pay the agreed premiums: it offers also favourable conditions of repurchase to insured persons, who, after two years, wish to cancel their policies. Notwithstanding the low premiums, the surplus grows from year to year as a result of the low mortality of the members, sound investment of funds, and careful and inexpensive management. Because of this the society was in a position not only to put aside big sums to insurance reserves, but also to establish special reserves. All the surpluses are returned to the policy-holders. After the payment of 5 per cent. interest on the guarantee capital, and after putting aside the requisite amount to the insurance reserves (*Deckungskapital*), the surplus for 1934 amounted to 250,549 frs.; out of it 50,000 frs. were allotted to the statutory reserve funds, and 200,549 frs. to the surplus fund of the policy-holders.

The expenses of “Peoples' Welfare” in Switzerland are very low. During 1934, it paid 95,353 frs. to agents and doctors, which represented less than 2 per cent. on 4,938,885 frs. of new business applied for by future policy-holders. Overhead expenses amounting to 108,286 frs. for the year 1934 represent less than three per thousand of the total of 38,872,780 frs. insurance in force. As a result of the small cost of administration, of low mortality of the insured and careful selection of investments it was possible, notwithstanding very modest premiums, to achieve considerable surpluses each year and to put them at the disposal of the insured.

The participation of each policy in the surplus may take two forms: it can be used for the reduction of premiums or added to the account of the insured as a deposit on which interest is calculated periodically. For the year 1934 the participation in the surplus amounted to from 6 per cent. in a two-year-old policy up to 15 per cent. in a fourteen-year or longer policy. For collective insurance a special surplus fund is established and is paid to the holders of ten-year-old policies in case of death, termination or repurchase. At present this surplus fund amounts to 25 per cent. of the insurance funds. For peoples' insurance, where premiums are paid fortnightly, the participation in surpluses only starts with four-year-old policies. The surplus is credited yearly to the account of the policy-holder and is credited with 4 per cent. compound interest. The accumulated sum is repaid in case of death, termination or repurchase of the policy. This surplus amounts at present, for a four-year policy, to 25 per cent. of the yearly premiums.

At the beginning of 1935, "Corvinia" had 24,704 policies in force for 176,773,372 pengo: life assurance policies were issued to 13,677 persons covering 7,621,157 pengo, fire insurance policies to 7,658 for 137,337,146 pengo; the rest was subscribed in other branches. In addition one collective policy covering 6,621 persons for 629,595 pengo was issued to the General Consumers' Co-operative Society of Budapest.

#### FINANCIAL POSITION

The results of the operation of "Peoples' Welfare" in Germany during its first eighteen years of existence were very satisfactory. On July 1, 1932, the number of policies in force was 2,261,663 covering 838,023,383 Mk. At the beginning of 1934, however, after the reorganisation of the society in accordance with the instructions of the National Socialist movement the number of policies had decreased to 2,246,535, premium income had fallen from 41 million Mk. to 36 million Mk., while insurance in force had dropped by 22 per cent. to 651,380,718 Mk. At the same time the cost of administration has increased considerably from 7,252,913 Mk. (1932) to 7,788,435 Mk. (1933) and to 11,700,000 Mk.

(1934). At the beginning of 1935 the number of policies issued by the society had increased to 2,546,893, covering a sum of 754,886,845 Mk.; out of this 2,517,279 were policies with 706,485,349 Mk. under popular insurance and 29,614 policies for 48,401,496 Mk. under ordinary insurance. During 1934, 76,386 policies lapsed and 130,513 were re-purchased. The total resources of the institution at the beginning of 1935 were 242,765,585 Mk., of which premium reserves amounted to 147,971,820 Mk., other reserves to 13,531,479 Mk. and the participation funds of the insured 51,116,480 Mk. Premium income for 1934 was 37,531,361 Mk. and interest and income from investments 11,207,749 Mk. The net surplus for 1934 totalled 10,253,308 Mk., of which the sum of 1,025,331 Mk. was placed to reserves, 50,000 Mk. distributed as 5 per cent. interest on the share capital and the rest, 8,510,876 Mk., credited to the participation funds of the insured members in the proportion of 30 per cent. of the paid annual premium to participation in the peoples' insurance section and 35 per cent. to the ordinary life insurance section.

The activities of "Self-help" also developed satisfactorily. In 1933 the society subscribed over half a million of policies in fire insurance. The results for 1932 can be seen from the following table:

<i>Description of Insurance.</i>	<i>Number of Policy-holders.</i>	<i>Sum Insured.</i>	<i>Premiums Paid.</i>
		<i>Mk.</i>	<i>Mk.</i>
Fire insurance :			
New subscribers . . .	36,017	121,375,940	133,825
Supplementary . . .	—	16,401,801	13,620
Prolongation . . .	480,561	2,298,622,282	2,268,023
	516,578	2,436,400,023	2,415,468
Burglary insurance :			
New subscribers . . .	4,578	17,212,172	19,141
Prolongation . . .	33,686	188,046,676	190,155
Supplementary . . .	—	2,456,570	6,068
	38,264	207,715,418	215,364

The business served mainly small householders' insurers : the average premium was about 5 Mk. The costs of enlisting these small policy-holders and collecting the premiums are relatively high, so that after putting aside the premium reserves, as prescribed by the Articles of Association, not much surplus is left. These premium reserves at the beginning of 1933 were in the fire insurance branch 1,341,465 Mk., and burglary branch 141,543 Mk. They have diminished at the beginning of 1935 to 1,099,332 Mk. and 80,477 Mk. accordingly. The claims for 1932 were comparatively moderate : they amounted to 16 per cent. of the premiums in the fire insurance section. The management costs for 1932 amounted to 1,221,616 Mk., of which 597,056 Mk. was paid to agents for enlisting new insurance and collecting premiums, while the rest went to overhead expenses. The activities of the successor of "Self-help"—the Social Welfare General Insurance Society—are conducted under the new conditions now existing in Germany. These are described in laudatory terms in the last Report of the Society.<sup>1</sup> At the beginning of 1935 the operations of the society were as follows :

<i>Insurance.</i>	<i>Number of Policies.</i>	<i>Amount Insured.</i>	<i>Premiums Paid.</i>
		<i>Mk.</i>	<i>Mk.</i>
Fire . . . . .	513,723	2,535,241,945	2,462,409
Burglary. . . . .	33,712	164,395,178	177,964
Water-pipes . . . . .	13	2,343,050	925

Premium income in all branches increased from 2,279,029 Mk. (in 1933) to 2,641,298 (in 1934). The average premium payment was 4.82 Mk. The expenses were very high,

<sup>1</sup> " Das Ergebnis der bei uns betriebenen Versicherungsarten ist im vergangenen Jahr günstig gewesen. Dies ergab sich aus der fortschreitenden Gesundung auf allen Gebieten des wirtschaftlichen Lebens, die durch der nationalsozialistische Staatsführung herbeigeführte Ordnung und Sicherheit kamen auch der Sachversicherung zugute. Die Belebung der innerdeutschen Wirtschaftsverhältnisse fing bereits am Anfang des Berichtsjahres die rückläufige Bestandsbewegung auf und führte im Verlaufe des Jahres zu einer befriedigenden Steigerung."

amounting to 1,714,237 Mk. or 65 per cent. of premiums received, of which agents' commission absorbed 839,136 Mk., overhead expenses absorbed 733,600 Mk. and taxes 121,451 Mk.

In the "Corvinia" (Hungary) the sum subscribed in 1926 amounted to 5,200,000 pengo and premiums received to 176,000 pengo. During 1934 premium receipts amounted to 696,262 pengo and payments for claims 149,910 pengo. At the beginning of 1935 the total assets amounted to 1,455,678 pengo, composed mainly of 300,000 pengo general reserves, and 912,765 pengo insurance reserves.

The "Peoples' Welfare" in Switzerland has made good progress. Up to the end of its seventeenth business year (December 31, 1935) it increased the amount of insurance subscribed to 41,053,802 frs. For the year 1934 1,561,301 frs. were received in premiums, 544,454 frs. in interest and 217,435 frs. paid for claims in life insurance branch. For the 17 years (1919-1935) the society paid out in cases of death and expired policies to the relatives of the insured, or to the insured themselves, 6,725,902 frs. The ordinary guarantee funds calculated on a scientific and actuarial basis are 11,907,656 frs. ; in addition other funds (guarantee capital, foundation funds, statutory reserve funds and surplus) amounted to 2,403,484 frs., making a total of 14,311,140 frs.

#### B. THE BANKING INSURANCE LABOUR INSTITUTION IN HOLLAND

The Central Workers' Insurance and Deposit Bank (N. V. De Centrale Arbeiders-Verzekerings-en Deposito-bank) in Holland is a unique institution and occupies an intermediate position between the two previously described groups of co-operative labour institutions. It was organised in 1904 as a Limited Company and is an institution belonging to the labour movement of Holland and operating for its benefit ; the greater part of the surplus achieved is used not for individual members and shareholders, but in the interests of the whole labour movement of the country. In 1903, after the failure of the second great defensive strike



of the railwaymen in Holland, some thousands of workmen and their families were faced with starvation. As the labour movement was weak and not yet in a financial position to help them it was obliged to appeal to the workers' sentiment of solidarity for assistance. The lack of any organised and well-established financial instrument induced the labour movement to form an insurance organisation. The promoters firmly believed that if conducted on a well-settled scientific basis, the enterprise would yield at least the same benefits as the capitalist insurance companies. Therefore, the Insurance Bank was organised to serve two main purposes: (1) to subscribe workers' life assurance and (2) to supply labour organisations with funds, by placing at their disposal as investments the insurance reserves and deposits of the members. These expectations were justified and the Insurance Bank has often been of assistance to the workers' movement not only by putting at their disposal part of its surpluses, but also by granting mortgage credit to co-operative and labour organisations.

The Central Workers' Insurance Bank in Holland was established as a limited company with a paid-up share capital of 100,000 fl. divided into 10 fl. shares; the shares may not yield more than 6 per cent. dividend, which is cumulative. The shareholders have received their dividends in full from the date of incorporation. The transfer of shares is subject only to the approval of the Board of Directors; and at the general meeting no shareholder can have more than six votes.

The business is confined to life assurance. At the end of 1935 there were 461,148 policies in force, representing 84,523,191 fl. of insured capital. The continuous progress of the business can be seen from the following table:

1905 . . . . .	1.5 million fl. amount insured.
1920 . . . . .	22.0 " " "
1925 . . . . .	48.0 " " "
1935 . . . . .	84.5 " " "

In 1935 the institution took the eleventh place among insurance companies in Holland in respect of the volume of operations. Out of 84.5 million fl. insured in 1935,

54,000,000 fl. were insured under "popular" insurance (under a maximum of 400 fl.) and 30,500,000 fl. under "capital" insurance (with a minimum of 500 fl.). More than 82 per cent. of the capital assurance was "mixed" establishing cover against death and for life after a certain age. The society operates through 720 individual agents. The proportion of premiums which is required to pay claims under policies is gradually diminishing (40 per cent. in 1935). The number of lapsed policies is small: during the year 1935 only 23,296 policies or 5 per cent. of all policies in force on December 31, 1935, had lapsed. During the last fifteen years, the bank has succeeded in considerably decreasing its ratio of management expenses. They amounted in 1917 to 32.54 per cent. of premium receipts, in 1923 to 21.50, in 1928 to 16.90 per cent., and in 1935 to 17.94 per cent.

The Articles of Association stipulate that 90 per cent. of the net profit must be used for purposes of furthering the economic, political and cultural position of the working class. The actual distribution is to be made as far as possible in the following manner: (a) one-third to the organisations mainly concerned with the elections to the legislative chamber and other governmental bodies, (b) one-third to the trade union movement, (c) one-third to the Co-operative Movement or any other organisations assisting the working class movement in its political, economic and cultural struggle. The distribution of the first surplus was made in 1921; for the whole period, including 1935, the sum of 408,825 fl. was placed at the disposal of the workers' movement. The National Syndical Movement and the Social Democratic Workmen's Party received together over 267,000 fl. In addition, between 1924 and 1935 about 624,000 fl. from accumulated profits have been expended for social purposes, holiday institutions, instruction courses, workers' advancement, etc. Apart from receiving a share of profits, the workers' organisations and their institutions are supported by loans, by other investments—mainly mortgages—as well as by the establishment of workers' club-houses. Thus, a total amount of 1,312,070 fl. was so invested of which

613,047 fl. have already been recovered. The funds of the Insurance Bank have grown from 1,000 fl. in 1905 to 84,000 fl. in 1920 and to 4,114,093 fl. in 1935—the capital amounting to 50,000 fl. and various reserves to 4,064,093 fl. The funds are invested in mortgages (up to 80 per cent. of the value), in trustee securities and in advances to policyholders. The financial position is excellent and at the end of 1935 the surplus of assets over liabilities—in which the premium reserve of 14,218,040 fl. was included—amounted to 3,809,052 fl.

### C. CO-OPERATIVE INSURANCE INSTITUTIONS OF THE LABOUR MOVEMENT

This group includes two organisations, the "Social Welfare" in Belgium and the "Hassneh" in Palestine.

The co-operative insurance society "Social Welfare" (La Prévoyance Sociale) was founded in 1907 at the instance of the Belgian Labour Party and is the only co-operative insurance society which belongs officially to a political party. "Social Welfare" is a joint organisation of the consumers' co-operative societies, the trade unions and the political groups affiliated to the Belgian Labour Party. Its principal business is life and fire insurance. The greatest part of the capital was subscribed by co-operative organisations and socialist trade unions. "Social Welfare" has rendered great service to the whole population of Belgium by improving the methods of popular insurance and by charging considerably lower rates. As a result of its activities an improvement in the insurance conditions of wage-earners' and low-salaried employees' insurance in general was achieved. "Social Welfare" has had three main aims: (a) to serve the members of co-operative societies, (b) to contribute to the work of the Labour Party by which it was created, (c) to render social service in conformity with the ideals of its founders. The first years of the society's existence were very difficult and those of the War disastrous. It was only by 1924 that losses were covered and ever since then "Social Welfare" has been able to fulfil its main aims. In recent years the society has shared out benefits to all

lives assured, old and new, without any increase of premiums. All co-operative societies and municipal institutions insured by it receive a bonus of 10 per cent. on their fire premiums at the closing of the yearly accounts.

With regard to financial assistance to the Belgian Labour Party, the Articles of Association lay it down that all profits after payment of dividends to shareholders not exceeding 6 per cent. and after due provision made for legal and special reserves must be placed entirely at the disposal of the general meeting. The support of the Party is effected in three ways: first, the society subsidises various institutions with direct donations; secondly, it is the proprietor of the modern plant of the great socialist daily newspaper *Le Peuple* in Brussels; and thirdly, it grants mortgage and other secured loans to co-operative and mutual organisations affiliated to the party. These loans have been a considerable factor in the development of the labour movement in Belgium. The society has also done great work in the field of social service by the establishment of preventive health institutions. It has purchased two country houses, one at the seaside and the other in the mountains, costing 2 million frs., and these are offered rent free to the "mutualities" for a term of twenty years for delicate and pre-tubercular children. The loss of rent is estimated at about 100,000 frs. annually. Belgian and French holiday camps are also subsidised regularly every year, the "Prévoyance" supporting them by the publication and distribution of thousands of circulars. Moreover, the "Prévoyance" is endeavouring to set up a large sanatorium to be used especially by its staff and insured members. It has already equipped four preventive medical dispensaries where any person (insured or not) is able to avail himself of a thorough medical examination once a year free of any charge whatever.

As a result of the War, whole Belgian regions were after 1918 in ruin and Belgium experienced an acute housing crisis. The "Prévoyance" took the initiative in organising a series of societies for building cheap dwelling-houses, and it has subscribed to the capital of fourteen such societies.

During the trade depression, the society gave active assistance to the children of the unemployed. The society has recently extended its life assurance operation to France, though at present only to certain departments in which it operates in association with the National Federation of Distributive Co-operative Societies.

The capital of the "Social Welfare", initially fixed at a minimum of 100,000 frs., rose by subsequent subscriptions from co-operatives, trade unions and political bodies, affiliated to the Belgian Labour Party, to 5,930,800 frs. in 1935. In addition the society obtained working capital by the establishment of a savings bank. The current and deposit accounts (the latter for a term of one or two years) of this bank amounted to 6,281,261 frs. (in 1934). The "Social Welfare" subscribes life, fire, and accident insurance on its own account. Between 1918 and 1935 the total premiums received rose from 1,219,380 to 46,304,763 frs. Premium income of the French branch amounted to 2,732,376 frs. At the beginning of 1935 the number of current policies was 470,000 for life insurance, 190,000 for fire insurance and 10,000 for accident insurance.

The general expenses amounted in 1925 to 31.2 per cent. of the premium paid, and in 1932 to 21 per cent. This decrease in the proportion of the general expenses was obtained largely by reducing staff, although the society employs 2,700 agents. The society has set up a pensions fund on behalf of its employees, inspectors and chief agents, which has been in operation since July 1, 1922.

The reserves of the society amounted to 1,304,985 frs. at the end of 1921 and they had increased to 18,362,190 frs. by the beginning of 1935. Insurance reserves amounted to 101,441,000 frs. The assets of the society—135,285,758 frs.—are mainly invested in real estate—22,466,426 frs., in securities (bonds and shares)—57,073,709 frs., and in mortgage loans—31,558,720 frs. The major part of the mortgage loans is granted to co-operative and mutual benefit societies and other institutions affiliated to the Belgian Labour Party.

In Palestine the Central Jewish Labour Organisation

(Histadruth) established in 1925 "Hassneh", Ltd.—a co-operative insurance society subscribing life insurance for the working population. Its main purpose is to provide insurance to individual workers, groups of workers and workers' organisations and to grant them mortgage loans for building workers' dwellings.

Palestine is a country undergoing a rapid and intensive colonisation. Over 50 foreign capitalist insurance companies operate in Palestine, but the majority of these have invested very little of their funds in the country and even so all their investments are being made through capitalist channels. The "Hassneh" has therefore, from the social point of view, a very important field of operations by protecting and consolidating the interests of the organised workers in the sphere of insurance. For instance, when the quarries of "Atlit" were opened for Jewish workers, "Hassneh" helped their families to build houses. Similar services were rendered to assist the building of houses in some of the new colonies and in Haifa.

"Hassneh" kept its free reserve funds with the Mutual Mortgage Loan Banks (Credit Unions) and thus helped them to increase and extend their important activities. The "Hassneh", like the "Prévoyance Sociale" in Belgium, gives a part of its profits to labour institutions and to the workers' press. During recent years "Hassneh" has built a "Preventoria" for the insured and their families, and hundreds of persons have benefited therefrom. "Hassneh" has the right to subscribe all kinds of insurance, but it has been operating in life assurance only. In order to obtain experience in other branches, a special agency was established, which is working as an insurance broker on commission basis. The agency is operating in fire, workmen's compensation, personal accident, motor and other branches. The experience of the agency has proved to be satisfactory and it has been decided to subscribe insurance in all these branches for own account. At the beginning of 1936 the number of life assurance policies in operation was 3,217. During 1935, 1,120 new policies for £152,000 were issued; the percentage of lapsed policies was

9.3 per cent. The paid-up capital of "Hassneh" is £5,000 and reserves amount to £36,800. In order to provide funds to guarantee the business of the new branches the paid-up capital is being increased to £15,000. The funds are invested chiefly in mortgages. About 20 per cent. are invested in short-term credits (3-5 years) under guarantees of banks and of co-operative credit organisations. The majority of the shares of "Hassneh" are held by the "Histadruth". They delegate twelve members to the Administrative Board of the Society; the Administrative Board elects an Executive of five members—three of whom are the managers of the Society. Annual general meetings of policy-holders to deal with the Report of the Administration take place in all principal towns of Palestine.

#### D. CO-OPERATIVE INSURANCE SOCIETIES FORMED BY TRADE UNIONS IN U.S.A.

In U.S.A., where the urban co-operative movement remains very weak and undeveloped, the trade unions have taken the organisation of co-operative insurance institutions into their hands. They have been compelled to do so, firstly because group insurance by employers has been widely spread and used as a weapon against trade unionism, and secondly because the internal benefit system of the unions has become out of date and has had to be replaced by an insurance system. The Portland Convention<sup>1</sup> of the American Federation of Labour, held in October, 1923, took the lead and a committee was appointed to examine into the death benefits provided by different trade unions and to suggest an improved method of furnishing such benefits. The Committee reported at the convention held a year later in El Paso, Texas. It suggested the formation of a life insurance company to subscribe life insurance to trade unions insuring their members collectively, and to individual trade unionists, wage-earners, their friends and sympathisers. A special conference was called in October, 1925, in Washington, and as an outcome of it the Union Labour Life Insurance Company was established. It is organised with the purpose

<sup>1</sup> See *American Federationist*, September, 1931, pp. 1074-5.

of providing all workers, individually or collectively, with life insurance at the figure as near to cost as is consistent with safety and the requirements of law. The company issued shares for \$750,000 which were fully subscribed during the first year (up to February, 1927) at the rate of \$50 for each \$25 share. Ninety per cent. of the shares were taken up by trade union organisations: 60 national and international unions, 7 State Federations of Labour, 34 city central labour unions and over 300 local unions.<sup>1</sup> The American Federation of Labour itself was one of the most substantial shareholders. Such wide distribution of shareholding was achieved in accordance with the expressed purpose to "organise the insurance facilities of the labour movement under a collective and co-operative organisation in which the labour movement as a whole was directly interested and represented". The Articles of Association provided: that not more than \$40,000 could be contributed by any one international trade union; that no one of them could hold more than 5 per cent. of the capital stock and thus the control could not fall into the hands of one union or a few unions; and that *all* policies issued by the company should be participating. It was also stipulated that the stockholders may not receive more than 6 per cent. interest on the contributed capital and surplus.

The company started operations in June, 1927. The first group insurance policy was issued to local N. 105 of the National Federation of Federal Employees covering the insurance of 1,400 of its members. Up to 1936, the company had subscribed over 49 million dollars of insurance and had paid claims for death or disability exceeding 3 million dollars. The company provides all usual forms of life, disability and double indemnity insurance for the individual.

Apart from individual insurance the company subscribes different kinds of trade union group insurance policies devised to meet every possible condition or emergency that may arise in the life of a trade union member. These policies aim to bring uniformity, where possible, into trade union benefit schemes and to replace some of the unsound plans

<sup>1</sup> *American Federationist*, September, 1931, p. 1075.



of benefit by group insurance contracts with premiums which are carefully calculated to meet the promised benefits. The company is admitted into New York State and every other large industrial State in the U.S.A., and also into Canada; this gives the insured a good safeguard, as the company is subject to a very rigorous supervision by the State authorities. The capital and surplus of \$18 per \$1,000 of insurance is larger than corresponding figures for the great majority of life insurance companies in U.S.A. In order to remove many misconceptions and doubts regarding benefits involved in life insurance policies, the Company has appointed competent representatives and agents to aid and assist all who may desire their services. Branch offices have been established and general and soliciting agents appointed.

The growth of the operations of the Union Labour Life Insurance Company has been rapid. Insurance in force increased more than four times in seven years from \$12,131,800 (1927) to \$51,546,301 (1933); individual policies amount to \$6,978,601 and group policies to \$44,567,700. Assets have grown from \$618,529 to \$1,852,166, yearly surplus from \$209,506 to \$430,336 and payments to policy-holders from \$6,400 to \$507,845. At the beginning of 1936 the total assets were \$2,260,500, capital stock, contingency reserve and surplus comprising \$1,088,156, or 48 per cent.

The second society, the Union Co-operative Insurance Association,<sup>1</sup> was founded in 1924 with a subscribed capital and surplus of \$200,000 fully paid up and no expenses or deduction for the promotion and formation of the company. In 1930 the capital and surplus were increased to \$400,000. At its close of business, December 31, 1935, the Association had a capital and surplus of \$696,832, and total assets of \$2,350,000. Insurance in force amounted to \$53,000,000. The gross benefits disbursed by the company for six months of 1935 were over \$354,000.

During 1930 the John Mitchell Mutual Life Insurance Company, the second oldest trade union life insurance

<sup>1</sup> *American Federationist*, September, 1931, p. 1083.

institution, merged and combined its activities with the Union Co-operative Insurance Association. The policy-holders have been 100,000 trade unionists belonging to over twenty occupations and spread over a wide geographical area. The results of the activities of the Union Co-operative Association were very gratifying: it is one of the five companies, out of the total number of 133 organised in 1925, which have paid cash dividends. While the great majority of these companies show a small yearly increase in equity, the Union Co-operative stands second in the list with a percentage of  $26\frac{2}{3}$  per cent. yearly as against an average for all companies of  $3\frac{2}{3}$  per cent.<sup>1</sup> The Union Co-operative Insurance Association produced a group life insurance policy specially designed to harmonise with the customs and purposes of the labour movement and imposes only one restriction as to coverage: namely, good-standing membership in the union. Beyond this qualification there exist no restrictions or limitations. This has resulted in popularising group life insurance among labour organisations during the comparatively brief period in which the company has been operating.

An entirely new and promising form of co-operative insurance was established in U.S.A., when the "Cuna" Mutual Society was incorporated under the mutual life insurance laws of the State of Wisconsin at Madison, Wisconsin, on May 20, 1935. It resulted from a study of the problem of loan protection (also known as borrowers' protection) insurance authorised by the Board of Directors of the Credit Union National Association at Kansas City, Missouri, January 28, 1935. Loan protection insurance is a plan which insures the life of a credit union borrower (in the decreasing balance of his loan) so that, if he dies with any balance remaining unpaid, his sureties (if any) or his estate will not have to pay the balance due. This insurance primarily protects the credit union; secondarily, the endorsers and the estate of the deceased. It is subscribed by a number of companies, under various types of contracts and at rates ranging (in cost to the borrower)

<sup>1</sup> *American Federationist*, September, 1931, p. 1083.

from 65 cents per 100 dollars of coverage per annum to 2 dollars. The entire cost of this insurance is now borne by the borrower. In other words, if, in the extreme case, the borrower is paying the usual 1 per cent. a month on balances on his loan (imagining in this case a loan of \$100 discounted at 6 per cent. for a year repayable weekly), the loan costs him (at the maximum rate charged for this service) 6 interest dollars plus 2 insurance dollars, both discounted, or a total of 8 dollars, a true rate of more than 15 per cent., thereby defeating the purpose of the credit union which is to make loans at normal interest rates.

One state has had five years of actual experience with this insurance: in other states there has been ample experience so that it is now possible to determine with accuracy the rate at which this insurance should be written. At the present time, this insurance is being extensively used by credit unions in the United States.

The "Cuna" Mutual Society belongs to the credit union members who have policies in it which are effective for one or more years. Everyone in the Credit Union National Association membership will be eligible for this service and no one outside the membership will be eligible. Substantial original surplus capital has been secured by a loan on favourable terms: this loan must be replaced by surplus accumulated within a reasonable number of years. The rate will be higher at first in order that the business may show a sufficient profit so that within a two-year period this profit will be ample to replace the borrowed surplus capital and thereby to return the loan.

The "Cuna" Mutual Society leaves the question who should pay the cost to the decision of the individual credit union. It recommends most earnestly that the credit union pay for this insurance. The insurance protects the credit union against possible loss and it is the primary business of the credit union, being a credit union, to keep the cost of loan service at the lowest possible rates. It is anticipated that it will become increasingly good credit union practice to have this insurance paid by the credit union as a whole. The "Cuna" Mutual Society is organised

to bring credit union borrowers a very substantial service of which they are now in great need.

There will be two policies, one of which obviously will cost somewhat more than the other. (1) A policy which insures the life of the borrower in the amount of any balance of a loan which may be still unpaid on his decease. (2) A policy which will insure the life of the borrower in the total amount of the loan for the life of the loan. If a credit union member, for example, borrows \$100 and has the first policy and dies owing \$20, the "Cuna" Mutual Society will pay \$20 to settle the balance due. If he has the second form of policy and has paid his loan in full and dies within the lifetime of the policy, the "Cuna" Mutual Society will pay his estate the amount of the policy or in this case, \$100. If, under these circumstances, he dies owing a balance, the "Cuna" Mutual Society will pay to the credit union the amount of the loan balance, and the remaining part of the insurance to his beneficiary. If the loan is repaid before the due date there will be a proportionate refund of discounted premium. No policy will be written in excess of \$2,000. The minimum charge for any policy will be 10 cents. There will be no age limit on the borrowers, unless it be found that it is an unfair hardship to operate without an age limit.

The rate will be figured exclusively on the basis of the cost of the service to the borrower. For insurance of the balance of the loan due at the death of the borrower the premium is fixed  $4\frac{1}{2}$  cents per month for \$100 insured (or 55 cents per annum).

## CHAPTER VII

### AGRICULTURAL CO-OPERATIVE INSURANCE (GENERAL SOCIETIES)

SEVERAL factors, natural, social, technical and political, have been responsible for placing agricultural insurance in a special position among general insurance activities. Mutual aid is, in general, a feature more characteristic of a rural than of an urban community.<sup>1</sup> Thus, rural insurance on mutual principles had, in very crude forms, been practised in many countries long before the advent of modern scientific insurance.

The specific character of agricultural insurance is to be found in the nature of the risks covered. Hail and crop insurance, livestock insurance, the insurance of forests against fire, as well as other kinds of rural insurance, differ from urban insurance. In dealing with rural risks, one cannot often be aided by reliable actuarial tables, and in some branches of rural insurance no adequate statistical data has yet been collected or made available, largely because the experience of losses is of a widely varying nature, extending over a series of favourable and unfavourable years.

The technique of agricultural insurance is influenced by two special features. One of them is that it has to deal with policy-holders who often live at a considerable distance from one another, necessitating a widespread net of agents and inspectors and involving a considerably higher cost of operations. The second feature is that close local supervision of the policy-holder and of the insured objects is of paramount importance. The personal character of the policy-holder and the care exercised by him over his household, his livestock, machinery, etc.—in a word, the moral hazard—is of the greatest significance in many branches of

<sup>1</sup> See "Co-operative Insurance," by Dr. N. Barou, *Year Book of Agricultural Co-operation 1935*.

rural insurance. It has also a direct bearing on the cost of insurance and the actuarial calculation of premiums. To ordinary insurance companies for which it is very difficult to be in close personal contact with the rural policy-holder, the moral hazard is naturally too vague and undefined and impossible of prediction. Their rates are, therefore, often prohibitive for the farmer. On the other hand, non-profit-making insurance organisations established by the farmers for the farmers, can make full use of mutual control and supervision by their members, and thereby diminish considerably the moral hazard and the cost of insurance.

Finally, the political factor has played a great part in the development of agricultural insurance, which has been often influenced by considerations of the general or rural policy of the State. In many countries the Government and municipal authorities take considerable interest in agricultural insurance and support it financially in different ways. They help to establish rural insurance institutions by subscribing to their capital and by granting subsidies and fiscal facilities, with the object of decreasing the cost of insurance and bringing it within the financial capacity of the farmers.

Rural insurance deals not only with the same risks as insurance in towns, but with many different ones. The special rural insurance risks are connected with the economic activities of farmers and are covered by fire, hail, windstorm, livestock, forest fire, strike, accident (employers liability) and motor-car insurance, etc.

Fire insurance is of very great importance to the rural population. It has been estimated that the value of farm property in the U.S.A. which was insurable against fire amounted in 1920 to nearly 26,000 million dollars. Unfortunately, very little is known, even by the United States Department of Agriculture, as to how much of this farm property was insured and no adequate data was available "in regard to the fire losses sustained by farmers".<sup>1</sup> The local mutual and co-operative fire insurance associations, transacting business within a small territory, such as the

<sup>1</sup> United States Department of Agriculture, No. 195, 1924.

local fire insurance societies in France, Belgium, Italy, Latvia and Tunis, or such as the parish and municipality mutuals operating in Canada and the co-operative fire insurance associations in New York State and elsewhere, function satisfactorily. Their success is to be attributed to the fact that they provide members with reliable insurance at a lower cost than other insurance companies, and treat them fairly by a reasonable and just interpretation of policies. A special form of insurance against forest fires is conducted on co-operative lines in Norway.

Another form of insurance which is of special importance to farmers is insurance against windstorms. The loss of life and property resulting from windstorms is very considerable, and in the U.S.A. it reaches over 10 million dollars a year. Windstorm risks are covered by mutual companies, but these have to operate over a large area, since a windstorm may sweep clean the buildings of a wide tract of country, even a whole state.

Hail insurance is one of the oldest branches of insurance. It was instituted by farmers' organisations, and it was the co-operative impulse of mutual assistance which brought it into existence. Since hail losses are concentrated on a relatively small number of farms and may be singled out from losses from other causes, it was possible to insure against hail risks and keep expenditure at a reasonable ratio to premiums. In many countries, including Prussia, France, Italy, etc., the State has united the small local hail insurance associations in a wide national system by promoting appropriate legislation and supporting them with grants and subsidies.

Even when the first attempts at hail insurance were not successful the farmers made constant efforts to re-establish the necessary institutions and urged the State authorities to pass the required legislation and to grant financial assistance. As a result, hail insurance is organised in many countries on a mutual basis with the help of public authorities, and its prevailing character is that of a non-profit-making enterprise. Sometimes this special character of hail insurance influences rival commercial insurance companies,

which operate this branch of insurance, even when it does not show sufficient profit.

At present the cost of administration of many of the hail insurance institutions in different countries, and particularly in the larger institutions, is very high. In countries where distances are great, means of communication inadequate and costs of expert inspection very heavy, the high cost of administration can be reduced only by degrees, as the economic development of the country proceeds. In other countries the high costs are due at least in part to faulty administrative methods. It is accordingly not surprising that in many countries the question has been raised recently whether in this branch of insurance an introduction of compulsory insurance might reduce the high costs connected with obtaining new business and other administrative expenses, and thereby improve and render more uniform the settlement of claims. In this connection some authors argue that it may be considered advisable to include hail insurance institutions in the occupational organisation of agriculture.<sup>1</sup>

Livestock insurance covers a very important part of farmers' capital, since losses from disease are at times very heavy. In the U.S.A. during 1890-1925, the estimated yearly losses of horses from disease ranged from 14 to 22 head per thousand, cattle from 12 to 24 head per thousand and hogs from 41 to 144 head per thousand. The position in many European countries is much worse, and the need for livestock insurance is greater than in the U.S.A.

In livestock insurance, actuarial calculation of premiums is very difficult by reason of the special importance of the part played by the individual policy-holder—owner of the insured stock—in the care he exercises and in the moral hazard he represents. This imponderable element remains of great importance even in countries where veterinary services are efficiently organised to cope with epidemic

<sup>1</sup> See Dr. W. Rohrbeck, "Agricultural Insurance in Relation to International Action," *Inter. Review of Agriculture*, 1933, No. 12, p. 506.



diseases. The primary condition of sound livestock insurance is that public authorities and private individuals alike exercise a proper control over epidemics. But it is important for the success of this branch of insurance that a definite control should also be exercised over the owners of livestock in regard to the care and proper handling of their animals. Such control is most effectively exercised through small local unions wherein the farm management of each individual owner comes naturally under the observation of other owners. The weakness of this type of organisation lies in the fact that it becomes effective only when provided with proper reinsurance facilities.

Agricultural co-operative insurance exists in more than thirty countries and is operated by a variety of organisations. It is, therefore, essential to find a proper classification for these numerous and diverse insurance institutions. It must be said at the outset that the difficulty of classification is considerably increased by the fact that only in a limited number of countries are local insurance co-operative and mutual societies grouped around one central reinsurance institution. In other countries agricultural co-operative and mutual insurance institutions operate side by side, and their activities will have to be described simultaneously.

It is proposed to start with Raiffeisen's organisations of rural co-operative insurance and the institutions of the Raiffeisen type in Germany, India and Bulgaria. Then will follow a description of the agricultural general co-operative insurance societies, covering different classes of rural insurance for the whole country. These societies will be grouped in four divisions: (*a*) primary societies formed by individual members in Great Britain, Hungary, Italy and Australia, (*b*) secondary societies formed by local insurance societies and their members in Latvia, Lithuania and Estonia, (*c*) subsidiary companies formed by the central co-operative agricultural institutions on a basis of a mutual or limited liability company in Great Britain, Belgium and Finland, and (*d*) the co-operative societies in Russia and the U.S.S.R. In the third place, the State-aided national system of mutual insurance in France and Italy will be

considered. Next, attention will be devoted to the activities of the special rural insurance societies which subscribe only *one* specific class of rural insurance, *e.g.* fire, hail, live-stock, accident and other classes of insurance. And finally, the insurance institutions formed by employees of rural co-operative societies will be dealt with.

### I. THE RAIFFEISEN SYSTEM

Looking in vain for traces of a theory of co-operative insurance through the numerous co-operative publications, one is astonished to find that the only serious attempt to formulate such a theory and to put it into practice was made by Raiffeisen more than sixty years ago (1872).

In contradistinction to his contemporary, Schulze, Raiffeisen was aware of the importance of a centralised credit system and tried to establish provincial and central banks for his credit associations. He wrote to Jager in January, 1873: "Experience teaches us that it is advisable to start the building of a credit system, with the establishment of central institutions. They serve as a trunk on which the associations will grow."

But Raiffeisen saw not only the necessity of a central co-operative credit bank; he also understood very early the importance of connecting such a central bank with a central insurance society. There were three main reasons for the establishment of such a joint credit and insurance system. The first and most important of them was, that insurance would immensely strengthen the position of the borrowing members of the rural co-operative credit societies. As Raiffeisen pointed out: "There can and will occur cases when, after having paid out a great part of the purchase price of an acquired farm, a diligent and thrifty head of a family dies, and it will be impossible for the widow to make further payments and at the same time to bring up the children. The credit association must not under their rules give any presents. On the contrary they have to see that all arrears are punctually paid up. If the head of the family would insure his life for the sum he owes, the widow would not only remain in possession of their real

estate, but would also get a small surplus which would help her." <sup>1</sup>

The second reason was the general need for introducing personal insurance to the rural community. In Raiffeisen's time, pension and annuity insurance was unknown to the small agriculturist, because he had not yet been shown the use of such an insurance service. A pension of even one thaler or guilder paid monthly to an old person, and the payment in the event of his death of only two thaler or guilders to his survivors, would be a great help in bad times. But the poorer elements of the rural population had not had much chance to become insured, because the insurance societies at that time exercised a special choice of clients, having an eye only for well-to-do persons. The credit societies, knowing the character of their members and being capable of acting as guarantors of their material and moral standing, could open wide possibilities for insurance of that part of the rural population that was hitherto denied its benefits. The local co-operative credit societies could be easily made use of for the purpose of introducing mutual insurance even to the poorest groups of the population.

The third reason was the importance of using the reserve and other funds of the insurance societies for building up a long-term credit system for the rural population. The efficiency of the rural co-operative societies could be immensely enhanced if the millions paid to insurance societies by the rural population in premiums could find their way back to the co-operative system for re-employment. This would satisfy the general need for credit in rural districts

<sup>1</sup> An interesting application of this principle is found in Turkey. The Co-operative Garden City Society in Turkey, established in 1935, is a co-operative housing society, the members of which acquire houses, built by the society, by making payments of monthly instalments over a period of twelve years. A provision is made in the Society's rules, that, in order to ensure the payment of outstanding instalments due on a house built for a member who dies, the co-operative society shall take out a special life insurance policy, the premiums of which shall be paid by the member concerned. International Labour Office Co-operative Information, 1935, No. 12, p. 5.

and help the development of co-operative activities in agriculture.

In addition, premium reserves which in life insurance societies are fixed for long periods and cannot be withdrawn before a certain date, are of special interest to rural credit institutions. By employing these reserves as long-term credits, credit associations could satisfy their long-term capital needs which were of so great an urgency. They could, that is, command large amounts of capital which, though accumulated by their own activities, was often lost to them.

After long years of study and after numerous conferences with representatives of credit societies, Raiffeisen came to the conclusion that only by close collaboration could co-operative credit and insurance institutions achieve the maximum results in regard to safety, volume and cost of credit. His reasoning was that societies would be able to raise large funds from insurance reserves, that the additional guarantees asked in different societies from borrowing members under certain circumstances could be replaced by life insurance policies which, in the event of the debtors' death, would cover the loan and free the guarantors. Moreover, Raiffeisen realised that old age pensions could be assured, and thus saw in the extension of insurance in that direction an important measure for raising the general standard of life. Raiffeisen therefore came to the conclusion that it would be essential to organise for credit societies special complementary co-operative societies for insurance of life, pensions, etc. In cases of illness or death, when repayments of loans from co-operative societies cease, such insurance societies would meet the deficiency in accounts. Both institutions would supplement and support each other in their work of ameliorating the conditions of the rural population. The Central Co-operative Insurance Institution could rely entirely on the credit societies acting as its agents.

Raiffeisen was very optimistic about the prospects of the complementary central banking and insurance organisations. He wrote to Director Baist : " In conjunction with

your bank, there would be set up a central life and old age pension insurance institution, principally for the working classes but open to all other classes. This institution would supply all the necessary funds and both institutions would supplement each other. The central banks, with their credit societies spreading into every village, would serve as cheap and reliable agencies for the central insurance institution. The whole work would be of great benefit to us, our descendants and our country." <sup>1</sup>

There would naturally be a division of labour between these two institutions. The principal aim of the central bank would be to organise credit societies, to give their members an opportunity to deposit their savings in a safe profitable way, and to grant them loans on the most advantageous terms. Through its insurance institution the bank would subscribe life and annuity insurance in accordance with mutual principles, and thus better the conditions and standard of life of the members of the credit societies, whose stability would be increased by the same means.

Raiffeisen considered that the great advantage of co-operative insurance would lie in the fact that it could subscribe insurance for different groups of the rural population. "To let the richest estate owner become a member of the same insurance co-operative society as the poorest day worker, will help to produce special mortality tables for different classes and professions in the same manner as in fire insurance, where great palaces and poor huts are insured simultaneously." <sup>2</sup>

The operations of Raiffeisen's co-operative insurance bank could be secured, even without guarantee-capital, by the obligation to pay out the whole insurance policy only when the total insurance sum of each separate class reached such a magnitude that it would by itself guarantee security for all cases. Raiffeisen estimated that the following figures for each separate insurance group would have to be reached

<sup>1</sup> Wuttig, *Versicherungs und Genossenschaftswesen als wechselseitige Hilfsorganisationen*, Berlin, 1914, p. 20.

<sup>2</sup> Wuttig, *op. cit.*, p. 66.

before the payment-obligation of the co-operative insurance bank would become effective :

Insurance from	100 to	500 Thaler	.	.	500,000
"	"	600 to 1,000	"	.	500,000
"	"	1,100 to 2,000	"	.	500,000
"	"	2,100 to 3,000	"	.	800,000
"	"	3,100 to 5,000	"	.	1,000,000

If the insured person's death occurred before the payment-obligation became operative, the heirs of the deceased would receive a refund of the whole sum paid in premiums plus accrued interest at 5 per cent.

Non-members of the credit societies might also be admitted as policy-holders but would have no right to be represented on the management bodies. Every profession would have to pay special rates according to its own mortality table, and the working-class policy-holder would have a special privilege of paying weekly or monthly through his credit association. The carrying of risks connected with especially dangerous professions would be made safer by reinsurance.

Raiffeisen was not able to put his insurance scheme into operation because the German Government was unwilling to legalise the dual credit-insurance organisation. His plans were subsequently revised in Germany and the development of co-operative rural insurance in other countries has taken different forms and only followed his advice much later.

Before co-operative insurance societies came into existence, the two main agricultural co-operative federations in Germany subscribed insurance cover for their members by acting as agents for the larger private insurance companies and collecting the premiums for them. The auditors of the co-operative federations advised their members as to suitable insurance companies for particular purposes, explained to them the importance and benefit of insurance, and arranged the appointment of trustworthy representatives for separate co-operative societies.<sup>1</sup>

<sup>1</sup> Establishment by co-operative societies of their own insurance societies.—*Deutsche Landwirtschaftliche Genossenschaftspresse*, Nos. 15 and 16, Berlin, August 15 and 30, 1923; *Jahrbuch für National Oekonomie und Statistik*, Part 6, Jena, 1923, pp. 283-4.

It was soon evident, however, that the co-operative movement would gain a good deal by establishing its own insurance institutions. The Raiffeisen idea of grafting an insurance scheme on to the co-operative agricultural system in Germany was, therefore, revived in 1922, when various societies for life and property insurance were organised to serve the Raiffeisen co-operative associations and their members. Two of them—the Raiffeisen Life Insurance Bank (Lebensversicherungs Bank) and the Regeno Life Insurance Bank, established later—subscribed life insurance. Two other societies—the Raiffeisen General Insurance Society (Allgemeine Versicherungsgesellschaft) and the Regeno Insurance Society of the Union of German Agricultural Co-operative Societies (Versicherungsgesellschaft des Reichsverbandes der Deutschen Landwirtschaftlichen Genossenschaften)—dealt with insurance against fire, burglary and other property risks. In recent years the two societies of each group subscribing life and property insurance respectively have amalgamated in one society, the Regeno-Raiffeisen Life Insurance Bank (Lebensversicherungs Bank) and the Regeno-Raiffeisen Insurance Society (Versicherungsgesellschaft).

The Raiffeisen Life Insurance Bank subscribed only life insurance. At the beginning of 1932 it had issued insurance policies to the value of 108,547,038 M. Of these, 11,082 policies for 38,968,877 M. were issued in individual insurance against death and 4,050 policies for 69,578,161 M. in re-insuring the Raiffeisen local insurance bodies (Sterbekassen). The total assets of the institution amounted to 10,967,387 M., composed of : legal reserve fund, 250,000 M. ; insurance reserve, 6,784,056 M. ; bonus-fund of the policy-holders, 1,804,524 M. ; undivided profits, 840,655 M. ; plus miscellaneous smaller funds. These funds were mainly invested in mortgages—8,538,152 M.—loans to policy-holders representing only 528,971 M.

The second life insurance institution, Regeno Life Insurance Bank, operated on lines similar to the Raiffeisen Life Insurance Bank. At the beginning of 1932, it had 53,650 policies in force with a cover of 56,928,363 M., its

premium income totalling 2,418,540 M. and its assets 3,274,298 M. In 1932 the two institutions were amalgamated in the Regeno-Raiffeisen Life Insurance Bank. After two years of operation, this institution had, at the beginning of 1934, 51,373 policies in force with insured values of 120,441,541 M., including 13,292 ordinary insurance policies for 48,507,871 M., 33,098 popular and annuity insurance policies for 29,315,296 M. and 4,983 collective policies issued to life insurance associations for 42,618,374 M. The total assets of the institution amounted to 17,473,887 M., out of which 11,695,759 represented insurance reserves and 2,693,980 M. bonus funds of the insured. The profits for 1933 were 535,813 M. The greater part of the assets was invested in mortgages, 11,986,080 M., and securities, 1,290,541 M.

The Regeno society for property insurance was formed under the auspices of the National Federation by the participating associations, including 42 federations, central banks and leading co-operative societies connected with the National Union. The objects of the institution were to insure against actual losses caused by fire, burglary, civil liabilities, damage to goods in transit, etc. The society considered it as its main task to subscribe insurance facilities on modern lines for the local co-operative societies, as well as for individual members, with particular regard to the special needs and conditions of agriculture. It was hoped in the interests of farming to do away with under-insurance of property, a widely prevailing condition involving serious risks.

The Regeno Insurance Society of the National Union of German Agricultural Co-operative Societies, later known as Regeno-Raiffeisen Insurance Ltd., subscribed all kinds of insurance—fire, burglary, accidents, motor-car and general insurance. Premiums received during 1933 amounted to 3,371,227 M., out of which 1,101,320 M. were for insurance on own account. Total disbursements during the year aggregated 1,403,220 M. and total assets 5,270,618 M.

In the middle of 1934 the society changed its name to



German Farmers' Service General Insurance Society, Ltd.<sup>1</sup> (Deutscher Bauerndienst Allgemeine Versicherungs A.G.). During 1934 the society received a premium income of 4,475,634 M., of which 1,943,625 M. were for own account, and paid out in compensation 1,764,503 M., of which 771,199 M. were paid for own account. Expenses have been considerably increased. From 647,988 in 1933, they have risen to 989,782 M. in 1934, and are classified under the following headings: commission, 178,600 M.; overhead expenses, 675,987 M.; taxes and social expenses, 144,194 M. Out of the society's 4,000,000 M. of guaranteed capital 1,375,000 M. was paid up. Reserves stood at 882,211 M. and the profits for 1934 aggregated 261,897 M. Total assets as on January 1, 1935, were 4,300,984 M., of which 2,264,430 M. were deposited in banks and 861,059 M. invested in securities. Premiums for 1935 amounted to 5,216,987 M.

Raiffeisen's ideas have exerted a considerable influence on the organisers of life-insurance co-operative societies in India. During the last few years it has become evident that there is a genuine and widespread desire among co-operators in India to establish insurance societies on a co-operative basis. Starting in 1930, many new co-operative insurance societies have been formed, and there is already on foot a sound and progressive movement for the amalgamation of these societies in a United Co-operative Insurance Society of India.

The Bombay Co-operative Insurance Society, Ltd., was established in 1930; it has developed very successfully, bringing insurance to the door of the small man. Policies are issued even for as small a sum as 150 Rs., while the maximum is at present limited to 2,000 Rs. Co-operative societies act as agents for canvassing insurance business among their own members, and agents' commissions—not

<sup>1</sup> The Deutscher Bauerndienst group includes three other societies: The Life Assurance Society (with 139,500,000 M. insurance in force), The Livestock Mutual Insurance Society (which is the largest livestock insurance in Germany with 7½ millions M. insurance premiums) and The Pensions' Union (which insures mainly the employees of the co-operative societies).

a negligible item—are saved for the members. In the interests of members and sureties, and in their own interests, the co-operative banks require the loan applicants to insure themselves in their own co-operative insurance society. The credit societies are also considering a plan to pay the premiums for their members for at least three years, till the policies acquire a surrender value, and to recover the advance by instalments like any other loans, but without interest, since the agent's commission received by the society will more than compensate it for the loss of interest.<sup>1</sup>

A second society, the Bengal Co-operative Insurance Society, Ltd., was established in 1930 for the purpose of subscribing life insurance, and during the four years of its existence it has made considerable progress. On June 30, 1934, it had Rs.24,765 in one rupee shares subscribed and fully paid up, and its total assets amounted to Rs.66,289. In their Report, the Board of Directors emphasise the fact that "the ratio of policies lapsed during the year to the total business in force at the end of the year as in the two previous years has been maintained this year at 3 per cent".<sup>2</sup>

The Raiffeisen plan to link up the central co-operatives with a central insurance society has found a new expression in the organisation of the South India Co-operative Insurance Society, Ltd., Madras. The aim of the organisers of this society was to make the co-operative central banks

<sup>1</sup> Extracts from the Presidential Address of Professor H. L. Kaji at the 2nd Urban Co-operative Banks Conference, Bombay.—*The Madras Journal of Co-operation*, April, 1932, p. 515.

<sup>2</sup> The Actuary of the Society makes the following comment on its activities: "Undoubtedly this has been a boom period in insurance and in its wake good, bad and indifferent institutions have sprung up. The insuring public need, therefore, plans of sound scientific assurance, worked by honest and expert management, with sympathy, economy and efficiency under the guidance of sound advisers. Likewise, it is an obligation cast on the public to eliminate the middlemen and to maintain continued connection with the company of their choice, for in this way they can reduce expenses and avoid lapses which are at the present two sources of danger. The Bengal Co-operative Insurance Society, Ltd., satisfies all these needs and will, I hope, receive the choice and sustained support from the discerning public."

and select urban and rural banks the main instruments in working the scheme and thereby keep down the expenditure on outside insurance agencies to as low a figure as possible. The banks are admitted to membership on their taking shares in the society to any extent they desire. Local boards of the South India Co-operative Insurance Society, Ltd., are established at the headquarters of every central bank, and the area of the operations of such local boards is coterminous with that of the central bank. When the local board selects agents to canvass business, reference is given to inspectors and supervisors of co-operative societies who, in the opinion of the board, will prove efficient and trustworthy. The Head Office guarantees a reasonable sum to the local board for office expenses, besides supplying all the necessary forms, accountancy books and literature. Every policy-holder, after being approved by the Head Office, pays his premium to the local board, which issues receipts on behalf of the local society. Accounts are opened in the name of the society at the central bank to which the board is attached, and all money received by the local board is credited to that account. The central bank remits the money to the account of the society in the Madras Provincial Co-operative Bank, Ltd.<sup>1</sup>

The society was registered in response to a genuine and widespread desire among co-operators to establish an insurance society on a co-operative basis. The Articles of Association express this aim very clearly: "All policy-holders are shareholders and members of the society and no individual can own shares without purchasing a policy. Hence the interests of the policy-holders and shareholders are identical" (par. 2). The business was started in March, 1932, and by November 15, 1934, 1,801 policies from Rs.100 to Rs.2,000 were subscribed and issued for a total of 16 lacs. The last report (June 30, 1934) shows that 1,311 members have subscribed Rs.42,999 to the share capital of the society—1,276 individuals holding 5,099 shares and 35 institutions holding 37,900 shares.

<sup>1</sup> *The Madras Journal of Co-operation*, April, 1932. Supplement to the issue, pp. 1 and 2.

Two other co-operative life insurance societies have been established in India during the last three years. One of them is the Travancore Co-operative Insurance Society, Ltd., Trivandrum, registered in 1932; the other is the Indore Co-operative Insurance Society, Ltd., Indore, registered in 1933. A new society is about to be established in Bihar.

The following table shows the comparative position of the co-operative insurance societies in India :

<i>Co-operative Insurance Societies of : Date of Information :</i>	<i>Bombay. 31.iii.1934.</i>	<i>Bengal. 30.vi.1934.</i>	<i>Madras. 15.xi.1934.</i>
	Rs.	Rs.	Rs.
Number of policies in force . . . . .	1,358 <sup>1</sup>	—	1,801
Sums assured . . . . .	9,85,018	—	16,00,000
Yearly income from interest and premiums . . . . .	56,795	16,312	49,320
Yearly expenses : paid to agents	21,345	—	—
"    "    overhead ex-			
penses . . . . .	14,701	10,577	—
"    "    claims . . . . .	4,530	0,523	—
Total assets . . . . .	70,133	66,289	78,604
Life Assurance Fund . . . . .	27,871	12,863	11,459
Investments in trust securities	55,206	—	10,451
Deposits with co-operative banks	9,849	26,090	34,617
Deposits with controller of cur- rency . . . . .	—	20,796	19,816

Another agricultural co-operative insurance system, greatly influenced by Raiffeisen, operates in Bulgaria. The local co-operative credit societies—the People's Banks—have in many places established special insurance institutions. At the beginning of 1933, 72 out of the 223 People's Banks in Bulgaria had such affiliated insurance units. The main feature of the Bulgarian system is the obligatory principle: every member of the People's Bank has to become simultaneously a member of the insurance institution, if such is established by the bank. The second feature is the equality of all members, both in respect of their rights and their duties: all members pay the same premiums and receive the same benefits, notwithstanding differences of

<sup>1</sup> On June 30, 1935, it has grown to 2,514.

age or occupation. The insurance sections differ from one another in the aims with which they operate. Some subscribe life insurance cover and pay a certain sum to the heirs of the deceased member. Others undertake a much more difficult and important task, namely, the partial or total payment and settlement of the late member's partial indebtedness to the People's Bank. In such sections, Raiffeisen's main idea, the combination of popular credit with insurance for the members of co-operative credit institutions, is realised.

The insurance sections practise two different types of life insurance. Some of them operate on the basis of fixed premiums and fixed benefits, others work on the system of levies, which are payable on the death of a member. The life insurance sections usually have very small reserves and often receive grants out of the surpluses of the People's Banks. In some of the life insurance sections there is a fixed proportion between the amount of credit granted to a member by the People's Bank and the sum insured and payable to his heirs. The dividends which a member receives from the bank often serve to cover the premium for insurance.

Nearly a third of all the People's Banks have established insurance sections, which have issued policies to 50,412 out of 169,700 members. Insurance sections attached to People's Banks are of varying size and as far as information is available are distributed in the following manner: banks with a membership up to 500 have 31 sections; those with a membership from 501 to 1,000, 16 sections, and those with a membership from 1,001 to 3,000, 17 sections. The premium rate differs considerably in different sections, but in all except four, they are the same for each member. In 19 sections the premiums are not fixed in advance. At the beginning of 1933, the resources of the sections amounted to 16,025,015 levas, of which 4,629,244 levas were placed to reserves. The sections manage their funds independently.

Apart from life insurance, all the other classes of insurance for the rural population—hail, livestock and fire—were subscribed by the insurance sections of the Central Co-operative Bank and will be dealt with later. The insurance is volun-

tary and is based on mutual principles. The rates are not lower than those of the private companies, but surpluses are used for paying bonuses or reducing premiums to policy-holders.

In 1935 the two banks—the Agricultural and the Central Co-operative—were amalgamated, and the insurance section of the Agricultural and Co-operative Bank of Bulgaria functions at present as a section of a public institution, operating on a non-profit-making basis. By covering at a low cost the insurance needs of the rural population, it aims to help the development of agriculture and the national economy of Bulgaria. The section has by special legislation the monopoly of insurance against hail and of livestock and fire insurance for state and communal institutions.

The efforts of the Bulgarian Government to foster agricultural co-operation have met with considerable success. At the end of 1932, there were in Bulgaria 3,878 co-operative organisations, with 776,444 members; of these, 2,962 were rural co-operatives with 319,595 members. Co-operative insurance organisations numbered 987 with 178,064 members.<sup>1</sup>

Further progress has been made during the last few years. In 1935 there were 750,613 farmers and landowners in Bulgaria; out of them 117,440, or 15 per cent., were insured co-operatively against hail and 77,522, or 10·3 per cent., are covered by co-operative livestock insurance. The funds of the insurance section are 45,000,000 leva, and reserves 71,375,825 leva. They are deposited with the Agricultural and Co-operative Bank of Bulgaria and partly invested in securities (8,000,000 leva). The management expenses of the insurance section for the last year were 3,434,623 leva or 8·7 per cent. of premiums paid. The Borough Councils, People's Banks and co-operative credit societies act as the insurance section's agents at a very low commission.

The insurance section does not do any reinsurance operations. Each branch of the insurance section operates its own insurance activities and is governed by a council, which considers and decides all important questions. The insurance section has its own Arbitration Committee whose

<sup>1</sup> See *Revue des Études Coopératives*, 1935, No. 56, p. 349.

aim is to settle the differences which arise between the section and the policy-holders, before going to court.

## 2. THE GENERAL INSURANCE SOCIETIES

### A. PRIMARY

Co-operative societies subscribing different kinds of rural insurance on a national scale for individual farmers operate in Great Britain, Hungary, Italy and Australia.

The Agricultural and General Co-operative Insurance Society, Ltd., was founded in Great Britain in 1908 to carry on for its members the business of mutual insurance against damage by fire and against employers' liability to pay compensation or damages to workmen employed by them in case of an accident during work. Subsequently the rules of the society were amended to allow the subscription of any class of insurance except direct life and personal accident. The society commenced business with a fund of £20,000 in hand or at call to meet claims. The funds increase by annual allocations to reserves out of profits and by the issue of £1 ordinary shares, which members are invited to subscribe in lots of not less than four. Members have the option of paying up their shares in full or of advancing 5s. on each share. The maximum dividend on ordinary shares is 5 per cent., at which rate it has been regularly paid since the beginning of operations. The total number of shares an individual member may hold cannot exceed 200.

The society may authorise agricultural societies, farmers' clubs and similar organisations to act as agents and may allow them a commission of 15 per cent. on their members' premiums. Any individual, society or company holding a policy is eligible for membership, subject to the approval of the Board of Directors. When a bonus is declared, a member not holding 200 fully paid shares is paid one-half in cash while the other half is credited to his personal reserve account until it amounts to double his annual premium. Thereafter the whole annual bonus is paid in cash to the member. If a member wishes for any reason to resign from the society, the Directors will, on application,

refund him the personal reserve standing to his credit and cancel his membership : while, in the event of a member's death, the personal reserve is paid out to his heirs.

The principal classes of business transacted by the society are : fire, livestock, motor-car, accident and employers' liability insurance. Fire insurance is subscribed at the usual rates, but all fire policies issued by the society cover the risk of lightning without extra charge. Inclusive policies covering all insurable risks are also issued in respect of the contents of private dwellings. The society undertakes the insurance of horses, foals, mares, etc., on favourable terms with a " no-claim " reduction of 10 per cent. on the renewal of annual livestock policies. The society's motor plough and tractor insurance policy embodies several special features, whilst premiums charged are moderate. The society issues to its members policies in regard to employers' liability at reduced rates ; it issues also specially favourable policies covering accidents in connection with horse-driven vehicles.

In regard to life insurance, arrangements have been made with the Marine and General Mutual Life Assurance Society whereby the Agricultural and General Society acts as its agent. Five per cent. of the annual premium payable on a policy taken out with the Marine and General through the society is credited to the members' personal reserve account. The annual bonuses received by members have averaged 18 per cent. of the premiums paid under their profit-sharing policies (1909-35).

The membership of the General Insurance Society at the beginning of 1936 was 5,605. The net total premiums from all sources, after deductions for reinsurance, amounted to £15,252, and claims, including all outstanding liability claims, to £7,350. A dividend of 5 per cent. per annum was paid to shareholders, and members received a 15 per cent. bonus on fire and 5 per cent. on life insurance policies. The balance sheet on January 1, 1936, shows total assets of £40,128, with a paid-up capital of £9,575 and reserve funds of £24,849 ; out of these assets £33,193 are invested in gilt-edge, municipal and railway securities.

In Ireland, rural co-operative insurance has not been suc-



cessful. Its introduction has been discussed at various times, but the only current instance appears to be a creamery scheme which one society has carried on for a few years.<sup>1</sup>

The largest and most important co-operative insurance society in Hungary, the Farmers' Co-operative Insurance Society (Gazdak), was established in 1899. At the time the position was such that, particularly in respect of hail and fire insurance, farmers had no choice but to insure with companies which had formed themselves into a ring. After the great hailstorms of 1897 and 1898, these companies increased hail insurance premiums by 100 per cent. It was mainly in order to free themselves from this dependence that the farmers founded their own co-operative insurance institution. The post-war financial disorder forced the society to make a temporary agreement with the large insurance companies, and to link itself with them for the protection of its interests and the fixing of the level of insurance premiums. With the stabilisation of the currency in Hungary the co-operative society severed in 1927 its connection with all other insurance companies.

The "Gazdak" receives no grant or subsidy from the State, but the latter participates in the share capital with a holding of 1,238,400 pengö. The management committee

<sup>1</sup> See *Agricultural Co-operation in Ireland*, p. 395. "The society initiated three years ago a Cow Protection Association, which is virtually an insurance scheme. The scheme was based on an estimated 2 per cent. death rate of milch cows and an average value of £15 per cow. In the first year, milk suppliers were asked to pay 1s. per cow per annum. On the death of a cow two members from a different part of the society's district were deputed to value it, and the society paid one-third of the valuation to the owner. This system was found to be capable of improvement, and in the following year it was altered to a payment of two-thirds of the annual value of the cow's milk to the creamery. A payment of 2s. secured four-fifths of the milk value and a payment of 3s. a sum exceeding the milk value. It is claimed that the system fulfils in some measure the functions of a cow-testing association, as it gives the farmer an added interest in the milk yield of his cows. The milk value of all insured cows is recorded at the creamery and available to members for inspection."

includes representatives of the Ministry of Agriculture, the National Chamber of Agriculture and the National Society of Hungarian Agriculture. At first the society started only fire and hail insurance, but later it extended its operations to other classes, including life, accident, livestock, burglary and motor-car insurance.

In accordance with its articles of association, "Gazdak" is an association for self-help, having for its object the subscription of all kinds of insurance for its members on a non-profit-making basis. The co-operative character of "Gazdak" manifests itself also in the fact that all the insured must become shareholders in the society; they are responsible for the management of the society and participate in profits. Profits are, however, not paid in cash, but take the form of a reduced premium or, as in life insurance, an increase of the amount subscribed under the policy. But membership imposes also obligations, *e.g.* the insured are responsible for the liabilities of the society up to double the sum for which they are insured. This makes the position of the insured members less favourable than those of members who only participate in the share capital, for the latter are liable only to the amount of their shareholding. The non-profit-making character of the society is also reflected in various benefits and bonuses to members and in the establishment of a branch for popular insurance. The premium receipts of the society during 1934 amounted to 7,102,226 pengö, and claims paid to 1,783,171 pengö. Different classes of insurance have contributed to the following totals:

	<i>Premium Receipts</i> <i>in Pengö.</i>	<i>Claims Paid.</i>
Fire . . . . .	3,262,634	684,852
Life . . . . .	2,478,215	624,940
Hail . . . . .	747,847	321,928
Accident . . . . .	312,168	59,500
Burglary . . . . .	153,529	37,015
Livestock . . . . .	76,955	26,604
Motor-car . . . . .	70,878	28,332
	<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>
	<u>7,102,226</u>	<u>1,783,171</u>

The financial position of the society is satisfactory. Out of funds totalling 11,097,305 pengö, share capital amounted at the end of 1934 to 1,546,488 pengö, and various reserve funds to 5,948,345 pengö. In 1901 the number of insured persons was 8,000, and it has now grown to over 200,000. During 1935 8,123,007 pengö was received in premiums and 3,063,163 pengö paid in claims.

In Italy the Co-operative Union in 1927 promoted a Central Co-operative Insurance Society (*Mutua Assicurazioni Enti Co-operativi Italiani*) for fire, life, theft, accident, employers' and householders' liability and other insurances. Premiums in 1932 amounted to £20,000.<sup>1</sup>

Three general agricultural co-operative insurance companies operate in Australia.<sup>2</sup> The first, the Producers' and Citizens' Co-operative Assurance Company of Australia, was organised in 1920 for the purpose of conducting business mainly in life assurance, burglary and other property insurance. The company was established by a group of co-operative societies and individuals. The nominal capital of the company is £500,000 divided into 425,000 shares of £1 each and 300,000 shares of 5s. each. In August, 1931, the paid-up capital of the company amounted to £108,293, and in accordance with the articles of association the dividend on the paid-up capital cannot exceed 8 per cent. per annum. Before dividend can be paid to shareholders, at least 50 per cent. of the profits must be put aside for distribution among the policy-holders. The bonuses to policy-holders are allotted in proportion to the amount assured, policies being grouped according to their class and duration.

The business of the company is carried on in several departments (ordinary department, industrial department, etc.). A valuation is made of the business in force in all departments at least once in every five years, and a sum

<sup>1</sup> K. Walter, *Co-operation in Italy*.

<sup>2</sup> The Farmers' and Graziers' Co-operative Grain Insurance and Agency Co., the third company operating in Australia, was established in 1918.

sufficient to meet the liability of the company in respect of such business, as ascertained by the valuation, is set aside. Any balance or surplus can be distributed in accordance with the general rules.

There were in force on August 1, 1931, 12,552 policies in the ordinary department, with an assured sum of £5,898,118, and £180,149 annual premiums; in the industrial department there were 9,976 policies with an assured sum of £952,658 and annual premiums of £34,422. Death claims for the year 1930-31 totalled £22,834. The aggregate resources of the company amounted to £676,805 (on August 1, 1931), out of which capital represented £108,293 and assurance funds £559,161. The funds of the ordinary insurance department accounted for £514,968 and those of the industrial department for £44,193. Of these funds, £102,980 were invested in Government securities, £156,107 in freehold property, £78,390 in loans on company policies, £56,625 in bills receivable, and £43,455 in mortgages.

The Co-operative Insurance Company of Australia, Ltd., Melbourne,<sup>1</sup> was organised in 1919 and subscribes various classes of insurance (fire, accident, motor-car, etc.). For the first fifteen years of operation (up to March, 1934) the gross income amounted to £2,323,915 and the net income to £1,305,657. Claims paid during this period amounted to £867,817, total dividends paid to £79,373, and additional profits distributed to co-operative shareholding companies to £31,763. The total assets of the company amount to £219,223, of which capital and reserves are £124,203. The premium income for the year 1933-4 amounted to £174,870, of which £76,627 was paid for reinsurance and interest. Total income amounted to £183,082. After deducting reinsurance, claims, expenses and depreciation, the company had a net yearly surplus of £22,420. A 7 per cent. dividend was paid to shareholders, £4,829 was allocated to a general reserve, and £2,650 was distributed among co-operative shareholding companies.

<sup>1</sup> Memorandum and Articles of Association of the Co-operative Insurance Company of Australia, Ltd., 1920, and *G. and N. Co-operator*, July 16, 1931.

## B. SECONDARY

The Baltic countries constitute one of the most interesting fields for the study of mutual and co-operative insurance. Their experience shows that it is possible, by means of proper legislative and organisational measures, to build up a united system of co-operative insurance for the whole country and to reorganise the mutual insurance societies along sound co-operative lines.

In Latvia the mutual insurance societies are the oldest mutual institutions in the country. First organised in Riga by the German inhabitants, they operated in close connection with the Riga municipality on the same lines as societies in Germany. In 1765 such a society, "Brand Assecurations Societet," was founded in Riga, and its field of enterprise was the "old town". The "Societet" operated as a mutual insurance fire society until the establishment of the Latvian Republic, when it was transformed into a limited company. Another society, the "Vorstadtische Brand-Assecurations-Anstalt", was founded in 1804, the purpose of which was to insure the houses outside the "old town", and in 1861 a third insurance society against fire was organised—the Kurland Mutual Fire Insurance Society.

The rural mutual fire insurance societies had already started in the sixties of last century, when they had had to work without legal or statutory protection, relying only on contracts with their members. The first rural co-operative fire insurance society recognised by statute and registered by the Government was only organised in the eighties of last century. Societies spread widely over the country, and at the beginning of the Great War numbered about 400. Their area of operation was, in the case of the majority of the societies, limited to a single community. The organisation of such mutual rural insurance societies received further stimulus from the law for the compulsory insurance of all rural buildings. The activities of mutual societies were thus connected with the work of the local authorities, whose duty it was to see that compulsory insurance was effected. A licence to insure movable goods was only

granted to a few societies. Even the insurance of houses had mainly the feature of mutual assistance, in that after a fire, members helped with material and labour to rebuild the remains or to build a new house. Insurance with fixed premiums and money payments was rare. In Kurland and Livland there existed several insurance societies against hail; in Wolmar, a mutual society for the insurance of steam-threshing machines was founded in 1908.

Since the foundation of the Latvian Republic, a great reconstruction of economic life has taken place. A new period started for the co-operative movement, and especially for co-operative insurance societies. The law of 1919 dealing with co-operative societies and their unions made possible the registration of co-operative insurance societies as legal bodies in their own local areas. The general principles for the operation and the future activities of the co-operative insurance societies were laid down by the Congress of Co-operative Fire Insurance Societies in 1921. The Congress approved standard statutes and resolved to organise a Central Union for co-operative insurance which might undertake reinsurance operations for the local co-operative insurance societies as well as the subscription of direct insurance for all kinds of co-operative organisations. The Union was actually founded in 1922 by 15 co-operative societies, but by the following year it had 169 members. At the end of 1935 the Union consisted of 525 co-operative members, including 374 insurance societies, 52 consumers' societies, 61 dairy societies, 6 central societies and 32 co-operative societies of various types.

The organisation of the Central Union enabled the local societies to expand their activities by insuring not only the buildings, but all other valuables, all risks being reinsured with the Central Union. At the same time, the constitution of the societies was reformed; instead of mutual societies, proper co-operative insurance institutions were organised. Fixed premium tables were used, regular valuations were undertaken, and, in the case of claims, payment to the insured was made in cash, while assistance "in kind" remained only the exception. The activities of the co-

operative fire insurance societies in the rural areas spread very rapidly. The 406 societies which sent in regular reports had at the beginning of 1935, 96,482 members, with 409,750,657 lats of insurance in force, and 3,783,237 lats in capital and reserves.<sup>1</sup> It is estimated that nearly 75 per cent. of all local buildings in Livland, Kurland and Zemgale were insured by the co-operative fire insurance societies. In Lettgallen, where conditions are different, co-operative insurance societies have insured only about 20 per cent. of all buildings. In accordance with the statutes, each member carries an additional responsibility for 3 per cent. of the sum insured with the society.

As was indicated before, the development of insurance societies was stimulated by the introduction of compulsory insurance for all rural buildings. The rural co-operative societies for insurance against fire made great strides because their rates were lower and more attractive than those of the private companies. They were also encouraged by legislation which exempted them from obligatory reinsurance and from the payment of taxes on insured property.

The legislation relating to urban co-operative insurance societies was less favourable than that dealing with the rural ones. Urban co-operative insurance was treated in the same way as private insurance limited companies. In accordance with the law, urban co-operative insurance societies have to reinsure 25 per cent. of all the risks incurred with the Insurance Department of the Finance Ministry and they have to pay in stamps an insurance tax of 0.05 per cent. on the insured sum and 10 per cent. on the premium. The territory within which the activities of the urban co-operative fire insurance societies are confined is variable ; some operate only in a particular town and others throughout the country. With a few exceptions, the urban societies, too, developed quite satisfactorily. There were at the beginning of 1935, 47 urban insurance societies with 17,530 members, with insurance in force amounting to 190,365,000 lats and funds of 564,901 lats.

<sup>1</sup> Darbiba Skitlos (1922-31), *L'Activité des sociétés coopératives de la Lettonie*, Riga, 1933.

Classified according to the nature of the risks insured, the operations of the Central Union comprised fire insurance, livestock insurance and life insurance, but the main operations are represented by the fire branch. In 1932 the total risks reinsured amounted to 206 million lats as compared with 182 million lats in 1931, while the total direct risks insured in that year amounted to 29 million lats as compared with 20 million in 1931. In the course of the last decade the value of compensation payments made represented on an average 53 per cent. of the premiums received and the current rate of premiums has fallen during this period by about 60 per cent.

The operations of the Central Union in Latvia are expanding rapidly, especially in connection with reinsurance, but direct insurance is growing at a slower pace. This is quite a normal development, since the main aim of the Central Union is the organisation and strengthening of the local societies to enable them through reinsurance to subscribe greater risks. Thus, the Central Union disengages itself little by little from direct insurances, which are increasingly subscribed by the local insurance societies and reach the central organisation only by way of reinsurance.

Such decentralisation of the system of co-operative insurance results in much better control of every separate insurance contract and, in consequence, reduces the risk and with it the premium. The Central Union covers its reinsurance operations by reinsuring the bigger risks abroad, by accumulating capital and reserves, and by the additional guarantee of the members and of affiliated societies. Such additional guarantee amounted at the end of 1929 to 2,191,000 lats. The Central Union accepts reinsurance at minimum rates (nearly 50 per cent. lower than those quoted by capitalist societies) and, on the other hand, pays 6 per cent. to 8 per cent. dividend on the capital subscribed by the societies.

The principal aim of the Union is to further the development of the local co-operative insurance societies. It has formed a special department for the establishment of local societies and for helping them to improve their organisation.



The Union has created, in conjunction with local societies, a special fund for combating and preventing fire outbreaks and also subsidises voluntary fire brigades. The profits of the Union are used principally for the formation of various reserves. The funds of the Union and of the local societies are deposited with co-operative banking institutions. The assets of the Union show a constant tendency to increase: from 20,500 lats in 1923, they have grown to 605,100 lats in 1932. Capital, special reserve and premium reserve funds constitute 73 per cent. of total liabilities; cash in bank and in hand constitute 31 per cent. and real property 50 per cent. of the total assets of the Union.

The development of the activities of the Central Union in Latvia can be seen from the following table:

<i>Year.</i>	<i>Number of Organi- sations Affiliated.</i>	<i>Rein- surance, in 1,000 Lats.</i>	<i>Pre- miums. Lats.</i>	<i>Losses. Lats.</i>	<i>Per cent. of Pre- miums.</i>	<i>Capital and Reserves. Lats.</i>
1923 . . .	169	5,754	36,257	1,050	2.9	9,267
1931 . . .	563	201,849	603,561	391,323	64.8	410,443
1935 . . .	525	249,737	696,061	236,131	33.9	722,187

The expenses were reduced during the last years by 50 per cent.; from 18 per cent. in 1923 they went down to 9.6 per cent. of the premiums paid in 1931.

It is estimated that the total turnover of all the Latvian co-operative fire insurance societies in 1929 amounted to about 25 per cent. of the aggregate fire insurance of the country, if the insurance in force, premiums and compensation paid are taken as the basis of comparison. But if the number of policies is taken as a basis, the percentage would be much higher. The co-operative fire insurance societies subscribe mostly small local farmers' insurances, while the private insurance societies insure mainly industrial and trading risks for larger sums.

In Estonia insurance is the oldest branch of the co-operative movement, the first co-operative insurance societies having been founded nearly seventy years ago (1866). Their number has constantly grown, and at the

beginning of this century nearly 300 such societies were in operation. Under the oppressive policy of the Czarist regime, the co-operative movement had to overcome great difficulties, and not until the establishment of the Estonian Republic did co-operation start to develop under favourable conditions. In 1920 the Estonian Co-operative Union initiated a programme of reorganisation for co-operative insurance. Societies needed a proper legal status and guidance as to methods of operating and accounting. It was also necessary to form a Central Co-operative Insurance Institution to provide local societies with reinsurance facilities in order to strengthen the weakest point in their activities. Such a Central Institution was established in 1923 and has undertaken the following main tasks: the reorganisation of existing local co-operative insurance societies and the formation of new societies; the provision of reinsurance facilities for local co-operative insurance societies; the provision of direct insurance facilities for other co-operative organisations which had acquired large properties and resources. The local co-operative insurance societies were often too weak to cover such big risks, and their insurance was often undertaken by private companies. The Central Society therefore had to start not only reinsurance but also operate as a direct insurance institution. The Central Society thus started operations for fire, transport, accident, cattle and burglary insurance, by according reinsurance facilities to local societies and by the direct provision of insurance for other co-operative institutions.

The Central Society in Estonia is formed by all central and many local co-operative organisations in the country. Its membership consisted (January 1, 1936) of the Estonian Co-operative Wholesale Society, the Central Bank of the Co-operative Credit Societies, the Union of Potato Marketing Societies, the Estonian Co-operative Union, the Agricultural Central Association, 41 consumers' societies, 207 co-operative insurance societies and 38 other co-operative associations.

The main operation of the Central Society is fire insurance. Out of the total premium income of 586,316 cr. received in 1934, fire insurance contributed 566,404 cr., or

96 per cent. The Central Society has paid, during 1934, claims amounting to 340,250 cr., of which 327,902 represented fire claims; 253,287 cr. of these losses were covered by other insurance organisations with whom those risks were reinsured. The Central Society paid during 1934 for reinsurance 415,681 cr., which included the sum of 402,320 cr. for fire reinsurance. The profits of the Central Society are very modest, representing only about  $\frac{1}{2}$  per cent. of the annual premium income; for 1934 they amounted to 10,022 cr. The development of the operations of the Central Society in Estonia can be seen from the following figures:

	1924.	1931.	1934.
Capital and Reserve Funds . . . . .	3,790	36,503	39,880
Insurance Reserves . . . . .	13,621	89,000	85,000
Yearly Premiums . . . . .	42,249	639,703	586,316

The total assets of the society on January 1, 1936, amounted to 384,191 cr., of which 111,537 cr. are deposited with banks, 23,622 cr. invested in securities and 227,413 cr. in loans.

In Lithuania the Central Insurance Union "Kooperacya" was established in 1925 to subscribe fire insurance. The founders of the Union intended to develop it as a reinsurance institution only. Unfortunately the right to transact reinsurance was, up to 1932, legally conferred exclusively on the State Insurance Institute and on one private insurance company. "Kooperacya" had to start, therefore, as an ordinary insurance co-operative institution, admitting to its membership collective bodies as well as individuals. The development of "Kooperacya" was much hampered by the special position enjoyed by the State Insurance Institute, exempting it from tax payment, and by the difficulties placed in the way of the opening of local co-operative insurance societies. The Co-operative Movement in Lithuania, not satisfied with this position, has submitted to the Government a new draft of legislation which would enable "Kooperacya" to organise a system of local co-operative insurance societies and become a central co-operative reinsurance society, on lines similar to those in Latvia and Estonia.

The membership of the Central Insurance Union "Kooperacya" in Lithuania comprised at the beginning of 1935, 324 collective and 6,871 individual members. The member's share is 10 lits, but members carry also an additional liability to the Union not exceeding double the amount of the premium paid for their last year's insurance. At the general meetings, individual members have one vote each and co-operative societies one vote for every 1,000 lits insured, but not more than 10 votes in all. The general meeting elects a board of directors and a council, each consisting of 5 members.

The Central Insurance Union "Kooperacya" in Lithuania, which operates in very difficult legal and economic conditions, has made good progress since its establishment in 1925. The following figures illustrate the development of its operations :

<i>Year.</i>	<i>Number of Members.</i>	<i>Sums Insured in Lits.</i>	<i>Premiums Received.</i>
1926 . . . . .	101	2,822,000	28,200
1932 . . . . .	3,848	30,076,068	282,566
1935 . . . . .	4,403	30,512,640	267,191

"Kooperacya" paid in claims 304,236 lits during 1932, or more than the premiums received (282,566 lits), the losses amounting to 107.6 per cent. of the premiums. Out of this sum, 69,526 lits were insured on "Kooperacya's" own account (22.8 per cent.) and 234,710 lits (77.2 per cent.) reinsured with the State Insurance Institute. The distribution of claims is of considerable interest : 80 claims from farmer members amounted to 146,514 lits ; one urban house fire claim—11,434 lits, one co-operative factory claim—145,934 lits, and one co-operative society's claim—354 lits. The high percentage of claims to premiums resulted from a big fire loss of one co-operative society. In 1935 claims paid amounted to 136,436 lits (51 per cent. of premiums).

In 1934 "Kooperacya" subscribed insurance for 154 co-operative dairies, 132 purchase and sale societies, 20 credit societies, 12 municipalities, 5,795 farmers and 758

urban householders, covering 31,453,391 lits. It occupies the third place among all insurance companies in Lithuania. The rates of "Koooperacya" are the same as of other companies, but the co-operative policy-holders receive a 10 per cent. reduction of premiums. The surpluses are yearly distributed in bonuses to policy-holders.

At the beginning of 1935 the total assets of the society were 264,445 lits, the capital amounting to 86,797 lits, premium reserves to 48,000 lits and reserves for unpaid losses to 34,176 lits. The profits for 1934 were 4,338 lits. The funds are placed mainly in deposits with co-operative and other banks—190,091 lits are thus invested. Loans to policy-holders amount to 25,405 lits.

The society operates through local co-operative societies which are paid 10 per cent. commission, and also through 120 individual agents. The management lies in the hands of an advisory council of five members and two directors.

### C. SUBSIDIARY

This group consists of mutual societies or limited companies formed by the central farmers' unions in Great Britain, Belgium and Finland, as subsidiary companies, to serve their members.

The National Farmers' Union Mutual Insurance Society, Ltd., was established in 1910 as the "Midland Farmers' Mutual Insurance Society, Ltd." This title was changed in 1919, when the present name was adopted. Originally the society was established to provide mutual insurance for farmers in the English Midlands. In 1919 the existing scheme was approved by the National Farmers' Union and the society under its new title became a general insurance society operating over the whole country. It now subscribes insurance for the members of the National Farmers' Union of England, the National Farmers' Union of Scotland and the Ulster Farmers' Union. It has become the largest mutual fire insurance office in the United Kingdom and over 50 per cent. of the total membership of the three farmers' unions are insured by it. The membership of the society numbers at present about 80,000, to whom 160,000 policies

are issued. The society subscribes all kinds of insurance, fire, life, annuity, motor, tractor, workmen's compensation, personal accident, livestock,<sup>1</sup> burglary, etc.

The cover granted by the policies is framed especially to meet agricultural requirements. Various extensions of cover are afforded beyond that usually given, *e.g.*, the spontaneous combustion scheme as regards fire risks. The society does not subscribe any forms of collective insurance and does not reinsure other co-operative or mutual insurance societies. It operates through a wide net of agents, numbering 1,100.

The rates of the society are lower than similar rates charged by private companies. The society claims that its fire rates are 20 per cent. and accident rates 15 per cent. lower. The last report declares that "had members continued to insure with tariff offices, instead of insuring through the National Farmers' Union Mutual Insurance Society, Ltd., they would have paid during the past seven years alone, £587,377 more in premiums than they have paid to their own Society". In accordance with the information of the report, the saving for 1935 amounted to £101,397, or 18 per cent. of total premiums paid.

The society has no definite scheme in regard to the distribution of profits. In some cases, *e.g.* in that of motor risks, premiums have been reduced by increased no-claim bonuses. Also various cash bonuses have been paid from time to time to policy-holders in different sections of the business. The surpluses in the fire and accident section have amounted, during the last three years, to £38,579 (1932), £31,547 (1933) and £35,930 (1934). In the life section, the quinquennial

<sup>1</sup> When the Pig Marketing Scheme became operative in September, 1933, the society was invited to issue policies covering risks in transit and the risk of condemnation of the animals after slaughter. This was a form of insurance not hitherto transacted. It was made compulsory to insure all pigs dealt with under the Scheme. The society, desiring to protect the producers, agreed to underwrite the risks, but the results throughout the year 1934 were unsatisfactory, and a heavy loss was incurred. From 1935 the compulsory condition has been withdrawn and a new rate of premiums, adequate to the new conditions, was fixed.

valuation on January 1, 1933, revealed a surplus of £9,737, of which £7,188 was applied for the benefit of profit-participating policy-holders and the rest carried forward. From the surplus of the fire and accident section, £10,306 went to policy-holders and the rest to various reserve funds and writing down freehold properties.

The management expenses absorb 22 per cent. of the net premiums and, including agents' remuneration, amount to 27.7 per cent. of total premiums. The life insurance section shows a very low number of lapses and surrenders: on January 1, 1935, there were 2,989 life policies in force, and during 1934 only 46 (or 1½ per cent.) were terminated by lapse or surrender. The policies so terminated amounted to less than 2 per cent. of the total sum assured. The directors of the society are elected by members from geographical districts. Policy-holders are entitled to attend and vote at the annual general meeting. The society has no share capital, but its total reserves and other funds were on January 1, 1936, £767,586. These funds were invested in bank deposits, £91,670; in Stock Exchange securities, £396,637 (with market value on January 1, 1935, £573,102) and in mortgages, £109,725.

The insurance society of the Belgian Farmers' Union (*Société d'Assurance du Boerenbond Belge*) is a limited company established in 1923 by the Farmers' Union in Belgium, with a capital of 5,000,000 frs., of which only 1,000,000 frs. were paid up. Under its Articles of Association the society can subscribe any kind of insurance, but at present it operates only in fire, life and accident insurance. The society also subscribes hail insurance as an agent and for the account of a foreign insurance company. Though the society is a subsidiary of the Farmers' Union (*Boerenbond*) it does not confine its operations to the members of the Union or to farmers, but subscribes insurance for the whole population of the country. However, it tries as far as possible to work in each locality in collaboration with the local farmers' mutual association.

The activities of the society in various branches can be

seen from the following figures. On January 1, 1935, the fire insurance branch had 131,426 insurance policies in force for 11,533,780,000 frs. During 1934, 18,828,640 frs. were received in premiums and 8,916,710 frs. or 47.3 per cent. of premiums received were paid in compensation for 1,893 claims. The life insurance branch had subscribed 5,089 policies for 180,489,896 frs. and received 8,421,923 frs. in premiums; 300 policies were repurchased and 1,958,603 frs. paid for them, of which 781,479 frs. were to the account of re-insurers; 82 policies were cancelled for non-payment of premiums. There were 25 claims, for which 861,000 frs. were paid, 352,000 frs. being covered by re-insurance. Group insurance policies were issued for 1,169 persons covering 93,305,406 frs. The insurance reserve of the life section amounted to 54,178,318 frs., of which 13,543,226 frs. were placed to the account of the re-insurers. The accident branch had 24,038 policies under obligatory State insurance, with 9,543,571 frs. premium received, while 6,195,390 frs. were paid for 5,727 claims. The policies for voluntary accident insurance numbered 49,296, with 14,367,419 frs. received in premiums. During 1934, 13,031 claims were made and 8,224,933 frs. were paid in compensation.

The total resources of the society at the beginning of 1935 were 121,185,950 frs., comprised of the following main items: capital subscribed, 5,000,000 frs.; reserves and funds, 11,804,815 frs.; insurance reserves, 58,752,794 frs., and reserves for claims unsettled, 17,137,081 frs. The funds, amounting to 51,458,136 frs., were invested as follows: 45,258,842 frs. were in loans and advances (including mortgages, advances on policies, etc.) and 4,662,450 frs. in bank deposits. The surplus for 1934 amounted to 1,558,629 frs.

The Farmers' Mutual Insurance Company Aura, Finland, has been established in the year 1917. The main cause of its formation was the passing of the new labour accident insurance legislation which for the first time compelled a great part of the farmers to insure their workers. The society subscribes accident, life and motor vehicle insurance. Accident insurance was subscribed, on January 1, 1936, for



41,700 households employing 95,000 workers. The motor-car section subscribed insurance for 5,907 vehicles. The life insurance section was started only in 1935. The rates of the society are the same as other companies, but it pays bonuses and uses a part of the surpluses for the reduction of premiums.

The capital of the society amounts to 4,000,000 F.Mk., reserves 2,060,513 F.Mk. and insurance funds 33,978,290 F.Mk. These funds are mainly invested in farm and communal mortgage loans and in bonds. The surpluses, after deductions for bonuses and for lowering rates, are placed to reserves. The society employs about 1,700 agents, but it does not operate through collective agents. It subscribes only direct insurance and does not do any re-insurance business. All the policyholders have a vote in the general meeting, which elects a board of management of 16 members. This Board in turn elects a board of directors of 5 members.

Life insurance business is operated through a special company, the Mutual Life Insurance Company Aura, with a guaranty capital of 4,000,000 F.Mk. At the beginning of 1936 the first year of operations, Aura has issued 3,714 policies for 47,525,000 F.Mk.

#### D. CO-OPERATIVE INSURANCE UNDER STATE MONOPOLY : U.S.S.R. AND UKRAINE

Co-operative insurance in Russia<sup>1</sup> was established only after the revolution in 1917. This has placed the new insurance institutions in a unique position, as the conditions of their development were quite different from those of other countries. Co-operative insurance was first started in Russia as a subsidiary by the consumers' organisations for the insurance of their goods and property. The idea of setting up a central insurance union originated as early as 1898, and was repeatedly brought forward. But each

<sup>1</sup> *The Russian Co-operator*, Vol. 3, No. 11, November, 1919; *Review of Agricultural Economics*, 1920, pp. 113-15; Manes, *Versicherungswörterbuch*, p. 626.

time the political influence of the private insurance companies on the one hand and the repression of the Government on the other, which even prohibited the discussion of co-operative insurance organisation, delayed its establishment. The private companies, anxious to subscribe insurance for the co-operative unions, offered them lower rates and obstructed the formation of a co-operative insurance society.

The stronger co-operative central organisations, however, resented the fact that their own insurance and the insurance of thousands of their local member-societies all over the country should be carried by private companies; they therefore seized the first opportunity to form an insurance service of their own.

The Co-operative Enabling Act of March 30, 1917, removed all obstacles to organisation and the formation of an insurance service built on co-operative principles again appeared in the foreground of discussion. The unsettled condition of transport and the risk to property in transit induced the leading co-operative national federations to set up their own insurance departments, issuing policies to their member-societies and re-insuring their risks with the private insurance companies. Some of the leading co-operative organisations, such as the Central Union of Consumers' Societies ("Centrosoyus"), the Central Association of Flax Growers, the Union of Siberian Creamery Associations, the Popular Bank of Moscow and others, set up their own insurance departments and subscribed insurance for their members.

The "Centrosoyus" began its own insurance operations in June, 1918, and during the period up to January, 1919, it issued 995 insurance policies for a total sum of over 60 million roubles. Considerable insurance business was done by the Central Association of Flax Growers, which in April, 1918, started to insure at its own risk the flax and other property belonging to its members. By the end of the year the Association had subscribed various insurance transactions for a total sum of 114 million roubles, of which 92 million were in respect of risks on flax, 21 million in respect of various goods, the balance covering real property owned

by its members. The Popular Bank of Moscow (Moscow Narodny Bank) initiated insurance transactions in October 1917, and conducted them on an ever-increasing scale for about one year. The total number of policies issued by the bank amounted to 376, totalling 78.5 million roubles. All the above organisations have in turn re-insured their risks and the ground was thus gradually prepared for the formation of a central co-operative insurance organisation. Such an organisation was finally set up in October, 1918, when the All-Russian Co-operative Insurance Union was formed, and the Popular Bank of Moscow transferred to it the insurance business which it was subscribing.

The objects of the new Union were "to organise and effect insurance against fire and against risks connected with the transport of the property of co-operative societies".

In order to further this work the Union intended also to promote the development of anti-fire measures and the erection of fireproof buildings, as well as to assist in every possible way the spread of measures tending to decrease risks of fire and in transportation. Indirectly, the formation of the new Union aimed at reducing the cost of insurance and at placing at the disposal of the co-operative societies the huge funds accumulated through the business of insurance.

The capital of the Union was composed of 2,600 shares representing 2,600,000 roubles, the principal shareholders being the Popular Bank of Moscow (1,000 shares), the "Centrosoyus" (500), the Central Association of Flax Growers (300), and the Union of Siberian Co-operative Societies (Zakupsbyt) 200 shares. The remaining shares had been allotted to a few central and some large provincial unions of co-operative societies: the Central Association of the Fruit Growers and Market Gardeners, the "Co-operative Grain", the Central Association of Hemp Growers, the Voronesh Union of Credit, Loan and Saving Associations and some others.

The members of the Union bore an additional liability to the extent of three times their shareholdings. The membership of the Union was to be open to central and

provincial unions of co-operative societies, individual societies and local unions being admitted only in exceptional cases. Members might organise their own insurance and re-insurance of their property but they were under obligation not to place their insurance business with any other insurance society. The local representation and agencies of the Union were entrusted to local co-operative societies only.

No less than 20 per cent. of the net profits for any year had to be placed to the reserve capital, but when the latter reached the sum of 5 million roubles, the yearly proportion could be reduced. The rules affecting the distribution of profits of the Union provided that the dividends on shares could not exceed 8 per cent., the balance to be used for increasing the reserve capital and various special funds, for the refund of part of the premiums paid by the members and for furthering anti-fire measures and co-operative and social aims.

During the first four months of the new Union's existence, 514 policies were issued, representing liabilities amounting to 265 million roubles. Of this sum, 104 policies worth 85 million roubles were further re-insured in other insurance institutions. The share capital of the Union was increased during the same time to 4,900,000 roubles, and total assets on February 1, 1919, amounted to 6,418,231 roubles.

Simultaneously with the establishment of the All-Russian Co-operative Insurance Union, another independent insurance institution was organised in February, 1919, in Novonikolaevsk, Siberia, sponsored chiefly by the Zakupsbyt Federation. The All-Siberian Co-operative Insurance Society served directly all the primary consumers' co-operative societies and their district and regional Unions, and, in accordance with this policy, the value of a share was fixed at the low figure of 200 roubles without limit as to the number of shares to be acquired in individual cases. The control over the affairs of the insurance society was in the hands of the meeting of delegates, who formulated its policy, fixed the premium rates, reviewed the financial reports and elected the board of directors and the control committee.

The liabilities of the Siberian Insurance Society for the insured property of its members extended beyond Siberia to European Russia and foreign countries as well. On August 1, 1919, it counted 1,024 members and had a share capital of 1,312,900 roubles. In the first ten months of operation, the insurance policies underwritten amounted to 504,693,134 roubles and the premiums to 5,276,436 roubles.

The nationalisation of private property and trade under Soviet decrees had by this time abrogated the institution of private property insurance, but the co-operative system of insurance continued till April, 1920. During this period the radical transformation of Russian co-operative organisations into a State machinery for supply and distribution put an end to the All-Russian Co-operative Insurance Union as an independent body, and its work became merged with the Insurance Department of Centrosoyus.

The revival of insurance in Soviet Russia appeared two years later under the form of a State monopoly,<sup>1</sup> including among other kinds of insurance, fire, hail and livestock insurance. The organisation was in the hands of a central administration, attached to the Commissariat of Finance, a body which covered all the branches of insurance previously under the control of the Supreme Council of National Economy. Insurance and re-insurance effected by foreign companies were recognised, provided the authorisation of the Council of the Peoples' Commissars had been obtained in each case.

Co-operative insurance was re-established under the "New Economic Policy" by the decree of October 6, 1921, which granted to the co-operative organisations the right to form insurance unions provided any large risks accepted were re-insured in the State Insurance Department (Gosstrach). The Centrosoyus then reformed its insurance department to serve the consumers' movement, and helped to organise the new All-Russian Co-operative Insurance Union (Coopstrachsojus) for the needs of the agricultural

<sup>1</sup> "State Monopoly of Insurance", *Zeitschrift fuer die gesamte Versicherungs Wissenschaft*, Vol. 22, Berlin, January 1, 1922. Also *International Review of Agricultural Economics*, 1922.

and artisans' industrial co-operative societies and unions. The fact, however, that all large risks had to be insured with the State Insurance Department robbed the Insurance Union of its independence and prevented it from establishing a wide insurance system on co-operative lines. The Central Insurance Section of Co-operative Insurance (Strachsektia) of the All-Russian Central Union of Consumers' Societies (Centrosoyus) was chiefly engaged in fire insurance business. On October 1, 1926, its yearly premium income amounted to 5,250,000 roubles and the claims paid to 993,000 roubles. With the introduction of the planning policy, however, it would appear that insurance operations in the U.S.S.R. were concentrated in the hands of the Central State Insurance Institution, and the co-operative insurance activities have ceased.

The development of co-operative insurance in the Ukraine had special features, resulting from the general economic conditions of the Soviet Union. Insurance in general was established as a State monopoly, and the co-operative movement was granted a special concession when permitted by the State to subscribe its own insurance. In the beginning of their activities the Soviet Co-operative Insurance Organisations of Ukraine regarded their functions as temporary and transitory. They considered that "co-operative insurance and, in connection with it, indemnification for damages, is of importance for the Socialist State only during the period of transition from the individualist to the collective system of economy. The main interest of the State is, therefore, directed towards actual measures which might prevent the very damages necessitating insurance and indemnification. Co-operative insurance bodies, therefore, from the outset paid attention to this side of the matter."<sup>1</sup> But in course of development the insurance organisations have had to concentrate on insurance proper, as their other functions, of organising the supply of fireproof materials and helping to establish building societies, were transferred to different institutions.

<sup>1</sup> *Coopstrach (Exposition Internationale de la Coopération)*, June 15, 1924, pp. 16-17.

Co-operative insurance in Soviet Ukraine was started on April 29, 1922, when an Insurance Department of the Co-operative Wholesale Society (Wukopspilka) was established. The Insurance Department was reorganised on November 31, 1922, as the independent "Ukrainian Co-operative Insurance Society" (Coopstrach). This society was reorganised in 1923 as the "All-Ukrainian Co-operative Union" (Coopstrach). The "Coopstrach" was entitled to carry out all kinds of insurance of property belonging to co-operative organisations such as fire, transport, livestock and crop insurance. The membership consisted of 37 co-operative organisations of all kinds (consumers', agricultural and productive) and of all degrees (local, regional and central). The share capital was fixed at 150,000 gold roubles, of which 37,500 were subscribed and paid by the members. The management of the Union was vested in the general meeting of the shareholders, the council and the board of directors.

The local organisations of the Union were formed by a chain of agencies and sub-agencies, the management of which was entrusted not to individuals but only to co-operative organisations of various kinds. In 1924 there were in operation 70 agencies and 14 sub-agencies. Out of these 46 were connected with consumers' societies, 9 with agricultural societies, 7 with branches of the Ukrainian Bank, 4 with housing and 4 with other co-operative societies. Sub-agencies were set up in connection with 12 district unions.

The Union developed its operations along two lines. It conducted fire and livestock insurance at its own risk and acted also as agent for the State Insurance Board in livestock insurance, in insurance of crops against hail and in transport and fire insurance. The Union paid considerable attention to the development of preventive activities against fire. It submitted several memoranda to the Government, and its efforts resulted in a series of measures aiming at the organisation and extension of fireproof building amongst the poorer sections of the rural population.

The Union also endeavoured to help in a practical manner

the extension of fireproof building. At the end of 1923 it took over for a period of six years, 27 cement and tile factories. The work of the latter was carried out through the medium of local co-operative organisations. A model workshop for the manufacture of cement and sand products was set up in Kharkov and craftsmen from the country were sent there for training. For the benefit of the co-operative membership the Union also started the publication of technical books on the cement and sand industry. Co-operative organisations engaged in the manufacture of fireproof materials were supplied by the Union with engine moulds and other technical materials on favourable terms. The Union participated in the work of co-operative societies supplying iron sheet, cramp iron, material for windows, doors, etc. ; it also helped to organise and develop building societies. All these activities met with a great response from the population.

For the first year of operation, ending on January 1, 1924, 6,458 policies were issued covering 51,985,131 gold roubles. Premiums paid amounted to 369,281 gold roubles and contributions for preventive measures against fire, to 30,026 gold roubles. Over 65 per cent. of the business was on account of consumers' co-operatives. The objects insured were as follows : immovable property, 38 per cent. ; goods, 54 per cent. ; movables, 4 per cent. ; factories and mills, 4 per cent. Out of the total transactions, 40 per cent. were re-insured with the State Board.

### 3. NATIONAL MUTUAL INSURANCE SYSTEMS

The French system is the most characteristic of this type of mutual insurance organisation. Under French law, only mutual societies are allowed to subscribe non-profit-making insurance. As a result, France has become a favourable field for the development of mutual insurance, and at present there are tens of thousand mutual insurance societies in operation. They were organised in accordance with the legislation passed at the beginning of our century (July 4, 1900) and they received considerable support from the State. The local societies, grouped for the purpose of cover-



ing risks of fire, loss of livestock, hail and accident, in regional re-insurance societies, are in their turn federated in central re-insurance societies.

With the object of accelerating the development of these societies, the Government has considered it advisable to consolidate the regulations relating to their constitution and operations in a single Act (the decree of August 2, 1923). Whatever the risk covered, the rules of the local societies must indicate the object, the registered address and full name of the society, the length of time it has been in existence and its area of operations ; it must also strictly define the nature of the risks against which insurance is subscribed, each society being allowed to insure against one kind of risk only. These risks include livestock mortality, accidents in agricultural work, fire, hail or other weather risks. The rules also stipulate the dates of the beginning and close of the financial year. The effective membership must not be less than seven and must be open to all farmers or owners of agricultural land in the area defined in the rules. Eligibility for membership cannot be made conditional upon the candidate belonging to any particular organisation. No remuneration may be given to persons engaged in the management or administration of the society. A paid secretary, who also acts as treasurer may, however, be appointed, but he is not to be considered as a member of the administration. The reserve funds of the agricultural mutual insurance societies are deposited with the Treasury, the Bank of France, the banks of agricultural credit or duly constituted savings banks. They may also be used to purchase State securities, Treasury bonds or other securities issued or guaranteed by the State, or invested in the shares of agricultural credit societies. In the event of winding up, that part of the society's assets which is provided by State aid is paid into the re-insurance society to which the society is affiliated. The surplus is employed in accordance with the provisions contained in the rules, and in no case can it be divided among the members of the society. Finally, the societies which receive State aid in any form whatever, are subject to State supervision.

The local livestock and fire mutual insurance societies may obtain from the Ministry of Agriculture grants of two kinds : (a) " foundation grants " made to societies in course of formation to enable them to meet the initial expenses of organisation and to build up a preliminary reserve fund ; (b) grants " for losses incurred ", made to societies in full working order which have suffered unusual losses during previous years. These grants are intended to enable the societies to form fresh reserve funds. The establishment grants are fixed on the basis of membership and the value of the capital assured. Application must be made within two years subsequent to the formation of a society and they are not renewable. In making grants for losses, account is taken of the membership, the value of the capital insured, the magnitude of the net losses incurred, the position of the reserve funds, the rate of the premiums ; and finally, due regard is paid to the certificate given to each insurance society in respect of its efficiency and good management.

The societies for re-insurance against livestock mortality and fire must specify in their rules the limits of the area within which they operate, as well as the conditions under which they share in the losses of the affiliated local societies.

The re-insurance society may either contribute to the settlement of all claims falling on the affiliated societies in a proportion corresponding to the share paid by each society out of the premiums it collects, or limit its contributions to such local societies as have had to pay claims in excess of a given rate. In the latter case three ways are open to the local and re-insurance societies : (1) an adequate increase in the rate of premiums payable to the local society ; (2) the raising of the limit at which re-insurance takes effect, or (3) the increase of re-insurance premiums for three years, whenever the local society has applied for help. It may be added that for insurance against livestock mortality the contributions payable by the local societies must not be less than 15 per cent. of the annual insurance premiums.<sup>1</sup>

<sup>1</sup> " The Constitution and Working of the Agricultural Mutual Insurance Societies in receipt of State Grants ", *International Review*

The agricultural mutual insurance societies in France are grouped in two main groups of organisations, the "Caisses Nationales de Réassurance" and the "Caisses Centrales de la Mutualité Agricole". Each of the groups of re-insurance societies is classed as an organisation of the third degree. Each of them re-insures the regional or departmental societies (Caisses), which in their turn re-insure the local societies. The two systems have developed their operations on parallel lines. The Caisses Centrales are of the earlier origin and have achieved great results, which the Caisses Nationales are trying to emulate. Regional societies can re-insure with both systems simultaneously.

The older French central mutual insurance organisation, "La Mutualité Agricole", comprises four main "Caisses Centrales", each of which specialises in one branch of re-insurance—fire, accident, hail or livestock. At the beginning of 1935, the most important of them—the Central Office for Fire Insurance (Caisse Centrale Incendie) had affiliated 29 regional and 14,521 local societies with 495,912 policies issued for 32,149 million frs. It is interesting to note that twenty-eight years ago, in 1906, after the first year of operation, this institution subscribed only 2,574 policies for 25 million frs. Premium income for 1934 amounted to 32 million frs. as against 25,000 in 1906. The second important branch is the Central Office of Accident Re-insurance (Caisse Centrale Accidents) with 26 regional and 12,210 local societies and 582,393 policies issued. This branch was only started in 1924. The Caisses Centrales for livestock and hail insurance are also increasing their operations satisfactorily.

There are four "Caisses Nationales de Réassurance" subscribing fire, accident, hail and livestock insurance, of which the largest is the fire insurance organisation. At the beginning of 1935 it had issued 300,000 policies through its 45 regional and 9,142 local affiliated societies. The total value insured amounted to 23 milliards francs, of which

*of Agricultural Economics*, 1923, pp. 582-5; "Decree relatif à la constitution et au fonctionnement des sociétés de L'État", August 2, 1923, *Journal Officiel* of August 5, 1923.

over 25 per cent., 6,450 millions, were re-insured with the "Caisse Nationale". The reserves of the whole system amounted to 47 million francs, of which 5 millions belonged to the "Caisse Nationale". The proportion of reserves to the capital insured was 200 frs. for each 100,000 frs. insured, which is  $2\frac{1}{2}$  times higher than the proportion of the private insurance societies (Compagnies des Assurances Générales), where there are only 79 frs. of reserves for each 100,000 frs. insured. The National Office of Accident Insurance comes next with 250,000 policies issued by its 36 regional and 3,000 local affiliated societies. The National Office for insurance against hail (Caisse Nationale Grêle) had, at the beginning of 1935, 22 regional and 685 local affiliated societies with 200 million frs. of insurance in force and 2 million frs. reserves. Finally, the National Office for livestock insurance (Caisse Nationale Bétail) had affiliated 51 regional and over 2,500 local societies. The reserves of this system amounted to 15 million frs.

The mutual agricultural insurance societies in France subscribe policies on much more favourable terms than the ordinary companies. In the case of fire insurance, their premiums are 20 per cent. lower, and as their policies are free from stamping and registration duties, the saving for the policy-holder is between 30 per cent. and 50 per cent. But this is not all. The "Caisse Centrale Incendie" (fire insurance) has paid back to its affiliated regional societies 20 million frs. The regional societies pay a considerable portion of the refunded premiums to the local mutual insurance societies. For example, the regional society of "Sud-Est" pays back over 50 per cent. of premiums received to its local societies. Five of them insure their members free of charge, because the interest earned by their reserves is sufficient to cover the necessary premiums. Many local societies have been able to reduce their premiums considerably in a similar way.

In French Africa agricultural mutual insurance originated in the twentieth century. It was put on a legal basis in 1904 in Algeria, 1912 in Tunis and in 1920 in Morocco.

The first mutual society was actually formed in Tiaret in 1903. Another regional mutual insurance society was formed in Algeria in 1904. This society, "La Mutuelle Agricole Algérienne", comprising at present 67 local mutual insurance societies, re-insures risks with the Central Insurance Society of Algeria and a central society in Paris. Up to 1924, when a special insurance society against accidents was formed, this society covered only fire risks, subscribing 150 million frs. In mutual fire insurance it attained very good results, fire dangers being considerably reduced by a careful and far-reaching preventive policy, and the number of local insurance societies has grown considerably. In order to accord proper re-insurance facilities for various branches of insurance, a Central Re-insurance Society for the agricultural mutual societies of North Africa was established in 1907. It serves as a re-insurance institution for 37 regional societies in Algeria, Morocco and Tunis. The representatives of these societies form the Council of the Central Society. Each regional society has the right to send one representative for each 10,000 frs. of premiums paid for re-insurance. The Central Society has four branches—fire, hail, livestock and insurance against accident.

The Central Society has made good progress. Premiums paid increased from 35,272 frs. in 1908 to 19,214,762 frs. in 1929, and the values assured from 1,442,997 frs. to 2,973,092,800 frs. At the beginning of 1935 it re-insured 42,575 policies for the 15,000 members of 37 regional insurance societies. The majority of the farmers of the country are served by the society. It operates at rates lower than those of the private companies and has distributed during 1931-34, 5,300,000 frs. in bonuses. The Re-insurance Society operates through the local insurance societies which have already accumulated 12,000,000 frs. in reserves.

The operations of the society are developing very satisfactorily. Different branches show the following results :

	<i>January 1, 1929.</i>	<i>January 1, 1935.</i>
	<i>Values Insured.</i>	
Insurance against Hail . . . . .	546,980,409	642,095,731
"    "    Fire . . . . .	1,638,751,229	2,349,950,205
"    "    Livestock . . . . .	11,795,985	4,893,509
"    "    Accidents . . . . .	775,565,177	1,166,855,615
	<hr/>	<hr/>
	2,973,092,800	4,163,795,060
	<hr/>	<hr/>

The society re-insures a certain portion of the fire risks with the *Caisses Nationales de Réassurance*, Paris. The total assets of the society amount to 20,017,800 frs., of which insurance reserves account for 15,439,305 frs. The funds are invested mainly in deposits with banks, 11,520,254 frs. ; in property, 1,461,379 frs. and in securities, 318,918 frs. During the first twenty years of its existence the society received 93,731,230 frs. in premiums and paid 58,035,505 frs. in claims (62 per cent.).

Agricultural mutual insurance in Italy is not of recent origin. In the small rural communes of the Alps there are livestock insurance societies dating back over a considerable period. According to an estimate made by the National Institute for Agricultural Mutual Insurance (*Instituto Nazionale per la Mutualità Agraria*) in 1925, there were in Italy about 1,350 insurance societies organised for the most part on primitive lines, that is, on the sharing-out system (*quota di riparto*) working in isolation and somewhat unprogressive in regard to re-insurance. With a view to promoting the re-organisation of the earlier societies and generally to put them on a sounder basis, and in order to encourage their establishment in the country districts, the Decree of September 2, 1919, was promulgated and was later modified by the Decree Law of October 21, 1923. The main principles of these two enactments may be here recalled.

The Decree of 1919 enacts in the first place, that the agricultural insurance societies must comply with the following requirements : (a) their object must be to provide compensation for losses arising from certain specified agricultural

risks ; (b) their area of operations must be strictly local, that is to say, limited to the commune or to that part of it where the headquarters of the society is situated or at most to a number of communes adjoining one another, provided the total population does not exceed 5,000. In the larger communes, which are divided into several administrative wards, the society must only operate in the area of one ward ; (c) the amount of the yearly contributions must be fixed within the limit specified in the Decree ; (d) all services rendered must be honorary, an exception being allowed in regard to the secretary and the treasurer ; (e) all and every kind of speculative transaction must be excluded. Societies having the required qualifications are granted corporate rights by prefectural decree.

The articles of association of a society and the rules for admission and withdrawal of members are exempt from registration and stamp duties. Similar exception is extended to all the proceedings and documents relating to the operations carried out by the society. In addition, all sums allocated to reserve are exempt from the tax on personal property.

Societies which come under this decree may arrange for the re-insurance of their own risks and for the safeguarding of their own interests by grouping themselves into federations or re-insurance societies. These federations, which can be formed only if a minimum of ten societies combine, are also expected to perform the following functions : (a) to ascertain whether the rules, both those set out in the articles of association and those of an internal nature, under which the federated societies operate, are being duly observed ; (b) to ensure the regular working of the accounting and administrative departments ; (c) to introduce uniformity by means of guidance and general instructions on the establishment of societies and by the direction of their policy, especially in connection with animal prophylaxis. The agricultural insurance societies which were approved under the Decree of 1919 during the years 1920-24 were the subject of a statistical return undertaken by the Department of Labour and Social Thrift (*Direzione generale del lavoro e*

della previdenza sociale). This return has not been extended to new provinces, although several livestock insurance societies operate there, nor does it include other numerous societies, more particularly livestock insurance societies, which are unregistered and have, therefore, no corporate existence.

Of the 424 societies legally constituted, there were on December 31, 1924, 319 actually in operation, of which 256 were in Northern Italy.<sup>1</sup> In recent years the mutual insurance movement has grown considerably. It was only in 1930 that the National Federation of Mutuality was formed at a conference at which 1,493 societies were represented. By the end of 1933, the number of affiliated societies had passed the 2,000 mark and it had been ascertained that there were in all something over 4,000 active societies in the country. It is expected that all the societies legally constituted will in time join their National Federation (though they are free to remain outside either separately or in independent groups), which is affiliated to the Co-operative Union.

There are some 1,200 societies which specialise in livestock insurance. These come under special legislation and are organised in their own Federation, now recognised as a separate National Federation, thanks to the long fight put up by co-operators against the attempt to regiment them with capitalist insurance societies. The National Federation, with the assistance of the Co-operative Union, is doing an extensive educational work and acts as a promoter of new societies, which it is now allowed and encouraged to form.

Rural fire insurance societies numbering 400 and hail societies numbering 30 are also being federated, strengthened and multiplied. For the general insurance needs of

<sup>1</sup> "Agricultural Mutual Insurance Societies", *Statistica delle Associazioni Agrarie di Mutua Assicurazione costituite, nel Regno nel quinquennio 1920-24*; *Bollettino del Lavoro e della Previdenza Sociale*, Ministry of National Economy, Rome, January 31, 1926; G. Rocca, *Le società mutue di assicurazione agricola Bollettino della Assicurazioni*, Nos. 7-8, Turin, April 30, 1926, pp. 241-4; *International Review of Agriculture*, 1926.



the thousands of insurance societies affiliated to it, the Co-operative Union in 1927 promoted a Central Co-operative Insurance Society (Mutual Assicurazioni Enti Cooperativi Italiani) for fire, life, theft, accident, employers' and householders' liability and other branches of insurance.<sup>1</sup>

Spanish public authorities have been actively concerned with co-operative insurance during recent years. In 1919 the State, by decree of September 9, established the National Organisation of Agricultural Insurances (Mutualidad Nacional del Seguro Agropecuario), one of the most immediate objects of which was hail insurance. The field of activities of this organisation rapidly developed, and on September 26, 1929, it was transformed by decree into the Commission of Agricultural Insurances with widened scope. The directive impulse given to national insurance by this organisation, alike in its earlier and in its subsequent form, proved a stimulus to private insurance. Later, however, insurance under direct State management was abolished, and the Commission was transformed into a Section of Agricultural Insurances with a more limited field of action, dealing only with re-insurance of farm risks, especially of hail damage, this latter being now the branch best known. In accordance with the terms of the decrees of April 23 and June 18, 1930, insurance companies, the risks of which had been re-insured by the Section, had the right to be compensated for hail damage, and also for valuation costs.

In 1934 a very important decree dated January 11 greatly widened the range of State activity in the sphere of agricultural insurance. Under this enactment a clear distinction was established between insurable and non-insurable farm risks. To the former class belong, as well as hail insurance, forest fire and farm fire insurance, and insurance against livestock mortality and against incapacitation of stock. As non-insurable risks, on the other hand, are considered risks from drought, frost, floods, persistent rains at critical periods, hurricanes, and finally risks due to plant diseases and pests. Protection against hail risks as also against all

<sup>1</sup> *Co-operation in Changing Italy*, K. Walter, pp. 70-1.

other insurable risks is carried out by the State by means of re-insurance contracts, or by establishing a direct State insurance service, either voluntary or compulsory.

Provided that it undertakes agricultural insurance and fulfils certain conditions, any society or company may enter into re-insurance or subsidiary insurance contracts with the State. Mutual insurance societies must also bring evidence that (a) they constitute a single society and that they operate over the whole of Spain, whatever may be the branch of insurance they undertake; (b) that they are forming federations of mutual insurance societies within the limited radius of activity, whatever may be such radius and whatever the branches of insurance so operated, and that, linked together in such organisations, they operate over the whole of the national territory; (c) that in the case of their operating hail insurance, their membership consists of at least 500 full members, and that, in the case of their operating insurance for more than two kinds of crops, their total assured capital amounts to at least 5,000,000 pesetas. The required figures as regards membership and total of assured capital have to be doubled in the event of the societies in question covering risks on one or two kinds of crop only.

When the re-insurance by the State takes the form of a contract with compensation for losses and re-insurance of 75 per cent. of the risks, such compensation may amount to 100 per cent. of the losses insured by the mutual insurance societies, including the costs of valuation. When, on the other hand, less than 75 per cent. of the risks are re-insured by the State—whether the insurance society has or has not re-insured the remainder with another society—the liability of the State must not exceed that corresponding proportionally to the percentage established by the contract. Limited companies and mutual insurance societies which operate or offer choice of risks or which limit their acceptance of risks, may enter into re-insurance contracts on the basis of a maximum share of 50 per cent. of all risks, no compensation of losses, however, being stipulated. On its side, the State may insure an excess of risks with societies

legally authorised to effect hail insurance in Spain. For this purpose there may be considered as excess any portion exceeding 5 per cent. of the total of the original risks.

Mutual insurance societies which conform with the provisions of the law and which do not operate a choice of risks nor limit risks, and which have surpluses of premiums over compensation payments, are obliged, in the same way as the National Service of Agricultural Insurances, to form or to add to a reserve intended to cover deficits which may occur in the course of disastrous years, and that even if this obligation does not spring directly out of contracts.

The agricultural insurance department, which has assumed the name of the National Service of Agricultural Insurances (*Servicio Nacional de seguros del campo*), has the function of applying the protection established by the law, acts under the Ministry of Agriculture and is attached to the Institute of Agrarian Reform. The National Service of Agricultural Insurances undertakes the conclusion of contracts of re-insurance and of subsidiary insurance under the prescribed forms and conditions, provided that the economic conditions and the organisation of the societies which apply for this form of State aid so permit.

The expenses of this service are covered by the following receipts: (a) a supplement on the premiums, capital sums or policy costs, such supplement to be fixed each year in the contracts but never to exceed 5 per cent. of the premiums; (b) the interest from the investment of the reserves; (c) the commissions collected for risks assigned in re-insurance; (d) subsidies that may be granted by the provincial Chambers, the communes and other institutions of public character; (e) donations and bequests made by private persons.<sup>1</sup>

<sup>1</sup> *International Review of Agriculture*, December, 1935, pp. 441-5.

## CHAPTER VIII

### AGRICULTURAL CO-OPERATIVE INSURANCE (SPECIAL SOCIETIES)

THE special agricultural co-operative and mutual insurance societies can be grouped in accordance with the class of insurance subscribed, in the following groups: (a) fire insurance; (b) windstorm insurance; (c) hail insurance; (d) livestock insurance; (e) agricultural accidents and sickness insurance; (f) insurance against agricultural strikes; and (g) motor-car insurance.<sup>1</sup>

#### (a) FIRE INSURANCE

Fire insurance institutions established on mutual and co-operative lines by special fire insurance societies presents a great variety of types of organisation, starting

<sup>1</sup> Apart from these groups, co-operative insurance societies have been organised by fishermen co-operative organisations for the insurance of vessels, for accident insurance, for old-age pension and other branches of insurance. The Fishermen's Co-operative Societies operate in 18 countries, number 2,258 units, with a membership of 300,000. Special Co-operative Fishermen's Insurance Societies operate in Great Britain, Canada, Denmark, Norway and Spain.

In Great Britain the Fishing Vessels Co-operative Insurance Society was established in 1923, for the insurance of vessels belonging to members. Similar vessels insurance societies are in operation in Norway. In Denmark various fishermen insurance societies are subscribing cover against accidents. Membership is compulsory and they are supported by substantial State subsidies. In Canada fishermen's associations have organised group insurance for their members. Finally, in Spain the Fishermen's Co-operative Societies (positos) are operating various branches of insurance for their members with the help of the Marine Social Institute (established in 1919). The Institute has formed a special National Mutual Insurance Association which insures vessels of small tonnage; it also subscribes accidents and old age pension insurance.

with the most primitive, as in Austria, and finishing with centralised and up-to-date organisations as in Latvia and Finland. In some countries, such as France, the Government takes a very active interest in fire insurance and subsidises the mutual fire re-insurance institutions.

Fire insurance in rural communities is of early origin and even now some of the primitive forms of it are still in existence. One of the most primitive forms exists in Austria. Here, mutual aid is organised in such a way that it must take the form of prompt and generous help in order to avoid as far as possible variations of price and of the purchasing power of money. It consists of contributions in money and in kind. The money contributions must be collected immediately by an agent of the local organisation and must be paid within a week to the person who has suffered loss. The contributions in kind are for the purpose of supplying him with the most urgent necessities and for helping him during the period of reconstruction. All those members are obliged to render help who bind themselves to do so by a handshake, and the same members have the right to demand help in case they themselves suffer damage. The appointed agents and the peasants' committee examine every case, ascertain whether the person who has suffered damage is entitled to help and, if such help is necessary, distribute the burden uniformly amongst all the members in the district. Contributions in kind must be furnished by the members living in the immediate vicinity, money contributions by all those living in the district. Those who refuse to give as much help as they ought, are declared to be refractory and are struck off the list of members.<sup>1</sup>

It is evident that this effective form of mutual aid can serve only as an addition to proper fire insurance and not as a substitute for it. Unfortunately, co-operative insurance is not known in Austria, and the local and central agricultural co-operative insurance organisations have

<sup>1</sup> Herman Kallbrunner, "A System of Mutual Aid Among Peasants in case of Fire", *International Review of Agricultural Economics*, 1922, p. 522.

not yet organised this important branch of co-operative activities.

Nowhere can the diversity of mutual insurance organisations be seen more clearly than in the case of fire insurance in Canada. There are several mutual fire insurance companies with a Dominion or provincial licence in most provinces of Canada, but mutual or co-operative fire insurance organisations operating only locally, are almost exclusively restricted to the provinces of Quebec and Ontario. There are four types of society in operation. The "cash mutual companies" subscribe fire insurance on the fixed premium system; they have a share capital and operate on co-operative principles. The "strictly mutual companies" transact business under the regulations of the municipal corporations of the province within the limits of a county, or the whole province, according to their licence. They are established under the "Quebec Insurance Act" by the council of any rural municipality and have for their object insurance against accidents by fire, lightning and wind, covering any building erected upon taxable land within the municipality, as well as any grain, hay, fodder, household furniture and agricultural implements contained in such buildings. These mutual companies have been established independently of the council of the municipality.

The municipal and parish mutual companies are subject to the formalities of a licence and registration, and each one is administered by the council of the municipality in which it is established. The council is empowered to insure or to refuse to insure certain buildings and also to fix the maximum amount of insurance on any property.

The owners of insured property are members of such a company and are liable for the amount of the damage caused by fire, as well as for all debts and obligations contracted by the company, in proportion to the amount for which their property is insured. The company is responsible to each of its members for two-thirds of the damage

caused to the buildings or property in question to an amount not exceeding two-thirds of the valuation of the insured goods or for an amount not exceeding two-thirds of the maximum amount of the insurance if such maximum is fixed. The cost of insurance in force in the Municipality Mutuals is \$1.05 and in the Parish Mutuals, \$2.78 per \$1,000—a very low rate in comparison with the average of \$8.09 for the whole Dominion. These co-operative and mutual fire insurance companies have operated successfully in Quebec for over twenty years and have been of great benefit to farmers by affording protection against fire losses at a comparatively low cost.

It will be worth while to give more detailed information about the activities of a few representative co-operative and mutual fire insurance companies in Canada. The Portage La Prairie Mutual Fire Insurance Company has the distinction of being the oldest co-operative insurance company in Western Canada. It was established in 1884 by a group of settlers, who bore the initial expenses in forming the company. The Portage Mutual was also the first company on the American continent to issue a policy giving the combined protection against fire, lightning, windstorm and cyclone. Such a policy was regarded as contrary to the rules of insurance and was met at the time of its inauguration by much criticism, but it proved to be a success. It underwent a great trial in 1922 when the company sustained an enormous strain upon its resources; in that year a terrible cyclone swept over the country and a thousand claims were filed with the company, which itself has repaired and reinstated 898 buildings.

The company has inaugurated a service branch in which men, trucks and equipment are maintained for the purpose of repairing buildings damaged by windstorms, and this service is greatly appreciated by the members. At the beginning of 1928 the company had subscribed insurance in force of \$65,381,656 and its assets amounted to \$1,292,161.

Another company, the Wawanesa Mutual Insurance Company, was organised in April, 1896, by a group of

pioneers, who paid \$20 each towards the expenses of incorporation. The first operations of the company were insurance of threshing machines. At the end of 1897 they had \$300,000 of insurance in force, with excess of assets over liabilities of \$891. Fortunately, no serious losses occurred, and next year a fire branch, separate from the thresher branch, was started and developed vigorously. Saskatchewan and Alberta had been invaded early, and from this time on the growth was very rapid. The report for 1900 notices that "insurance in force at this date was \$4,419,459, being the largest amount of fire insurance carried by any company in the West." The losses from the thresher branch, however, were very heavy and finally, in 1901, it was wound up. The fire insurance branch operated successfully: in 1910 the company had subscribed \$27,000,000 of insurance and claimed to be the largest mutual fire-insurance company in Canada. British Columbia was added to the business territory in 1920.

Abnormal losses from 1921 to 1925 brought home to everyone the absolute necessity of an adequate reserve and a more careful selection of risks if sharp increase in the premiums were to be avoided, and of careful underwriting and inspection. The company has built up its reserve till it had in 1935 cash assets in excess of all liabilities of over \$965,000 and total assets of over \$2,500,000. The interest earned on securities in 1927 was over \$35,000 and for 1934 over \$50,000. The company has paid out, during the period of its existence, over \$7 million in claims. It has saved the members almost an equal amount in reduced premiums since, during the life of the Company, its average charges were 20 per cent. to 40 per cent. lower than the charges of private companies.<sup>1</sup> At the beginning of 1936

<sup>1</sup> The directors write: "Right here is the chief difference between a mutual and a stock company: our cash surplus over liabilities of almost a million dollars is the property of our members, and not only stands between them and any possible loss, but the interest will, as the reserve grows larger, bear an ever-increasing portion of the operating expenses. In a stock company this reserve would belong to the stockholders and would ultimately be available for distribution as dividends."



the company had issued policies for over \$346 million. Between 1926 and 1934 the company moved, in regard to the volume of premiums received, from the nineteenth to the third place among the 300 insurance companies operating in Canada.

The company's assets include \$579,613 surplus, \$467,635 reserve of unearned premium, and \$48,540 investment reserve. In addition, there were unassessed premium notes for \$1,271,637 held by the company which are not admitted as assets by the Dominion authorities, but are treated as contingent assets only. For the past twelve years the company has collected over 82 per cent. of its assessment levy before it has been 60 days overdue, and most of the balance within a year. Of the funds, \$717,839 is invested in securities approved by the Dominion Department of Insurance, \$108,108 in real estate, and \$218,367 as bank deposits. Gross premiums for 1934 amounted to \$1,284,921; net premiums earned \$1,051,115, and net losses and adjustment expenses, \$524,834.

The Farmers' Union Mutual Insurance Company of Kansas, U.S.A., subscribes fire, lightning, tornado, hail and accident insurance. At the beginning of 1934 the company had 17,484 members with \$74,152,166 insurance in force, of which \$20,275,281 were subscribed during 1933. During this year \$178,576 was received in premiums and assessments and \$119,957 paid on claims. The total resources of the company amounted to \$323,751, of which reserve funds were \$256,025.

The development of mutual and co-operative fire insurance has taken quite a different and more comprehensive form in the Baltic countries. In these countries the local societies have formed their central re-insurance institutions, which developed their activities very satisfactorily and helped to consolidate the whole system on progressive lines.

In Latvia, the mutual fire insurance societies also origin-

ated in the middle of last century. They were obliged to suspend activity during the War, but soon after it they were reconstituted, and their net covered the whole country. These societies operate on a pure mutual basis without share capital. Their number has increased from 17 in 1920 to 406 in 1935. Membership has grown correspondingly from 1,900 to 96,482, and insurance in force from 9.5 million lats to 409.7 million lats. But still only 36.5 per cent. of all farm households are members of mutual insurance societies, while the majority are insured with commercial insurance companies.<sup>1</sup>

The financial results of the activities of the local societies are very satisfactory. Though the losses caused by fire absorbed 23.1 per cent. of premiums in 1925 and 40.3 per cent. in 1930, the general increase in business resulted in rapid accumulation of reserve funds, which have grown from 1,000 lats in 1920 to 3,783,237 lats in 1935. In 1935 the combined accumulated funds of all the mutual fire insurance societies amounted to 4.3 million lats. The greater proportion of the societies' liquid funds was deposited with local co-operative credit societies. The farmers' fire insurance societies are re-insured by the Central Insurance Union.

In Finland, the "Vakava" Mutual Re-insurance Society was organised in 1917 as a re-insurance society for its members, which are local farmers' fire insurance societies. On January 1, 1936, the "Vakava" had 172 collective members and had subscribed fire re-insurance for nearly 250,000 policies, with a total of 3,521 million F.Mk. insurance in force. It is the largest society of its kind in Finland. The "Vakava" subscribes insurance at rates cheaper than the ordinary insurance societies and helps its local member-societies to develop their activities by proper instruction, consultation and audit. The capital of the society is 3 million F.Mk. The funds are invested in real estate and loans; surpluses are transferred to reserve.

<sup>1</sup> As explained on page 225, fire insurance is compulsory in Latvia.

The society does not employ agents and pays no commission.

In Bulgaria the fire branch of the insurance section of the Central Agricultural and Co-operative Bank has the monopoly for covering the compulsory insurance of State and Communal buildings, and insures them for 13,980,314,000 leva; it subscribes also voluntary insurance for co-operative organisations and individuals for 81,747,000 leva. During the last year of operation (up to October 15, 1935) the branch received 11,127,266 leva in premiums for public buildings and 211,955 leva for other insurance.

France presents in the domain of fire insurance, as in other branches, the foremost example of a mutual insurance organisation built up under the direction and with the help of the State. Fire insurance societies subsidised by the State have been developed there on a very large scale. In 1921 there were 4,463 such local societies, the oldest of which dates back to 1902, and 39 re-insurance societies. Of the local societies, 4,081 were re-insured for a total sum of 2,252,769,383 frs.

These societies can only insure against agricultural fire risks of all kinds, or risks connected with farming, risks of small rural artisans being considered as properly belonging to this category. The National Office for fire insurance operated at the beginning of 1935 for 45 re-insurance societies with 300,000 members. The total sum insured amounted to 24,948,472,393 frs., out of which 6,450,578,899 were re-insured. Premiums paid during the year amounted to 5,741,182 frs. and claims to 3,569,834 frs. During the same year, 1,278 claims were made, of which 1,036 were under 1,000 frs.<sup>1</sup>

In the French Colonies in Africa fire insurance is subscribed by mutual societies on lines similar to those followed in France. In Tunis, in accordance with the legislation passed in 1931, one local mutual insurance association is formed for each civil administrative area. They are

<sup>1</sup> *International Review of Agriculture*, 1933, No. 12, pp. 492-3.

affiliated to a regional association whose headquarters are in Tunis, and this in turn is re-insured at the Central Re-insurance Society of Agricultural Co-operative Societies of North Africa at Algiers.

Agricultural co-operative insurance societies or associations under unpaid management and administration, formed without any view to profit and, in fact, not making any, may be freely established without the authorisation of the Government, and are not subject to the formalities prescribed for the constitution of insurance societies. Under the designation of agricultural co-operative insurance associations are included societies whose object it is to effect insurance against agricultural risks of all kinds, and in particular, risks of hail, fire, livestock mortality, accidents, frosts and other weather risks. The law provides that a distinct society must be formed for every class of risk.

Membership of the local societies within the limits of the local administrative area, and subject to the formalities prescribed by the rules, is open to: (a) farmers or rural landowners; (b) agricultural co-operative societies, co-operative agricultural credit associations, co-operative agricultural insurance organisations, water supply associations, mainly related to agricultural production; (c) rural artisans not employing more than two workmen regularly, such as farriers, blacksmiths, wheelwrights, repairers of machines, tools, implements, or of farm buildings, barrel and cask makers, etc.

Local associations are formed without share capital. Reserve funds are built up from the admission fees of members, the contributions of insured persons, grants or subsidies from the State and from agricultural associations, especially agricultural co-operative credit associations, gifts and bequests made by private persons and the above-mentioned associations, interest on funds, rebates received or shares taken in the risks by the re-insuring associations. Every local association is obliged to take a share in the risks insured. This share is at least one-twentieth of that compulsorily re-insured with the regional re-insurance

association, but it may be increased in proportion to the increase in reserves.

The Central Co-operative Re-insurance Organisation in North Africa must guarantee the payment of the share of the risks falling on the regional associations in the event of the resources of the latter proving insufficient. The Central Association may retain 50 per cent. share in the risks assured by the regional associations, reducing or increasing this share according to the state of its reserves. It is, however, under obligation to re-insure excess risks with a central association or in France or with a joint-stock company. In the event of dissolution, the assets of the central association must, after settlement of accounts, be distributed among the regional associations in the proportion of the premiums received during the last five years.

The number of policies increased from 518 (in 1921) to 1,055 (in 1930) and the value insured, from 47,828,184 frs. to 147,167,163 frs. Premiums paid have also grown from 446,976 frs. to 1,080,567 frs., and claims paid have decreased from 567,250 frs. to 342,876 frs.

A special type of fire insurance is represented by forest fire insurance in Norway. Forest fires in Norway constitute a great calamity in their frequent incidence and consequences. During ten years (1913-22) 950 forest fires destroyed 76,537 maal of forest, involving a total loss of 940,000 crowns exclusive of expense incurred in extinguishing the fires, which amounted to 289,000 crowns. The largest fire took place in 1920, when 17,000 maal of woods were consumed by flames. The fires are most frequently due to lightning, but a great number of them are directly traceable to carelessness in lighting fires in the country and in the woods, to sparks from locomotives or the carelessness of travellers who throw lighted cigars from carriage windows.

The Norwegian Society for Mutual Insurance against Forest Fires (Norske gjensidige Skogbrandforsikringssekke) founded in 1911, has proved a marked success. The insurance in 1935 reached 365 million crowns, while about 4,150,000 crowns have been paid into its reserve funds. The

society was organised on a mutual basis by 50 forest proprietors—owning between them 190,000 hectares of forest, valued at 17,806,000 crowns. A further 150 forest owners were soon enrolled, and from that time it has developed rapidly, as is shown by the figures of insured values, which rose from 44,955,000 crowns on November 1, 1912, to 365,269,000 crowns in 1935. This progress, however, was due more to the increase in the value of forest products than to the increase in the area covered. Besides, this area could only increase at a slower rate as the society covers risks of smaller value and size. In 1912 the average value of risks covered was 100,000 crowns; it was no more than 40,000 crowns in later years, though the value of the forest has been about the same.

The Norwegian Society for Mutual Insurance against Forest Fires has a profit-sharing arrangement among its members which operates in two entirely different ways. In the first place, by the terms of its Articles of Association, it collects only a minimum premium in advance, reserving to itself the right to demand supplementary premiums at the end of the year, which must not, however, exceed three times the amount of the initial premium. Every insured person has thus a powerful inducement to take every precaution against any cause and source of danger to his woods, and also to fight fires that may break out.

There is, moreover, a second form of profit-sharing for the benefit of members who have been insured for more than four years. These members represent, from the point of view of insurance, a most advantageous proposition. It must be borne in mind that in the first place, on their application for admission to insurance, the usual strict examination of the proposed risks is held. Then, even after the agreement is already in force the society has always the option of cancelling a policy, not only after a loss has been declared and indemnified, but also after a fire on which no claim has been made. Thus agreements which have successfully passed through this double weeding-out process, naturally offer exceptionally sound guarantees; a preferential treatment is accorded to them, consisting in

a gradual decrease of the premiums and ending in an additional share of the society's profits.<sup>1</sup> After 22 years' period of insurance, the payment of premiums ceases entirely and the insurance remains free for the future.

Recognised as a public utility, the Society succeeded in acquiring certain important exemptions from taxation, enabling it to reduce premiums to a minimum. The insurance premium is on the basis of 1.25 per thousand, but it is subject to a reduction of  $\frac{1}{5}$  at the end of four years and a rebate of 0.4 per thousand at the end of eight years. Thus, the average premium per thousand shows a rapid reduction: from 1.32 in 1912 to 0.88 in 1933. The society used to demand a higher premium for forest areas in districts where no measures for preventing forest fires existed, but as a law in regard to such measures came into force in 1922, this higher charge has been discontinued.

The increase in premiums collected between 1912 and 1920 may be shown thus:

Year.	Gross Premiums in Cr.	Reduction for those insured 4 years.	2nd Reduction (8 years).	Net Premium.
1912 . . . . .	58,618	—	—	58,618
1921 . . . . .	382,926	50,008	38,804	294,114
1933 . . . . .	411,674	62,422	59,790	289,462

Owing to general economic conditions the expenses of administration showed for several years past a continuous decrease; they amounted in 1912 to 0.39 per thousand of the insured capital, rising to 0.42 in 1921<sup>2</sup> and falling to 0.197 in 1935.

#### (b) WINDSTORM INSURANCE

Windstorm insurance stands between fire and hail insurance, as it covers fire and other losses caused by

<sup>1</sup> See "Profit Sharing in the Norwegian Society for Mutual Insurance against Forest Fires", Christiania, 1921, M.B., *International Review of Agricultural Economics*, p. 524.

<sup>2</sup> "The Norwegian Society for Mutual Insurance against Forest Fires", 1921, Christiania, *International Review of Agricultural Economics*, 1922, pp. 52-3.

windstorms. As a typical example of the operations of a windstorm co-operative insurance society, we may take the Danish Co-operative Storm Insurance Society (Dansk Forsikringsforening mod Stormskade). It was established in 1903 to subscribe storm insurance on farm buildings. The members in 1935 numbered 45,000, and the total sum insured was 822,446,387 Kr.

The object of the society is to subscribe direct storm insurance for all farm buildings, with thatched roofs as well as with roofs of non-combustible materials. The insurance rates are the same as those of other companies, but the members benefit mainly from the fact that only farmers with good moral standing are admitted to membership. Apart from this, the society is known for its fair treatment of members, and losses caused by storms will be assessed with justice and accuracy, as the assessors of the society remain in its service for many years and possess expert knowledge in their line.

The society is the oldest and largest amongst the companies operating in storm insurance in Denmark. Its excellent standing can be judged by the fact that, in spite of an extraordinary premium collected in 1933-34 and representing 2 per cent. of the sum insured, the total sum of insurance subscribed rose in 1934-35 by 49,309,091 Kr. The capital of the company amounted to 196,396 Kr. (May 31, 1935). The funds were invested in bank and insurance companies' shares, bonds and mortgages. The annual accounts on May 31, 1934, showed a profit of 111,003 Kr. The heavy storms in 1933-34 and especially the disastrous tempest in February, 1934, caused a loss of 883,838 Kr., which was covered by reserves accumulated in previous years.

Windstorm insurance on mutual lines is also organised in the U.S.A. It is especially popular in Illinois, and the companies established in this state can be grouped into two classes: the district companies operating in a number of counties, not exceeding five; and the county companies which operate only in single counties. There were on



December 31, 1914, four of the former and eight of the latter type.

(c) HAIL INSURANCE

Hail insurance is subscribed in many agricultural countries, but only in some of them, where climatic conditions are of consequence, has it grown to any large dimensions. Hail insurance started to develop at the end of the last century but has made only moderate progress because it depends so much on the vagaries of Nature, whose climatic factors cannot yet be foreseen with great exactitude, and the ratio of losses to premiums shows very great fluctuations. As can be seen from the figures dealing with the results of hail insurance in France, the ratio of losses to premiums has varied from a minimum of 30 per cent. in 1898 to 126 per cent. in 1908.

The organisation of hail insurance on co-operative and mutual lines differs considerably in various countries. In some of them, such as Switzerland, France and Bulgaria, it is conducted by co-operative and mutual societies subsidised by the State, in others it is built up by free co-operative effort.

In Switzerland insurance against hail has been carried on for many years by two mutual insurance companies, the Swiss Hail Insurance Society of Zürich and La Paragrêle. The latter operated in the canton of Neuchâtel and insured vines only.<sup>1</sup> The former, on the other hand, operates through the Confederation and insures every kind of produce against damage by hail. The Swiss Hail Insurance Society had in 1930, 76,191 members and La Paragrêle, 697 members.

The Swiss Hail Insurance Society was established in 1880. Apart from La Paragrêle it is the only company in Switzerland which subscribes hail insurance for farmers, gardeners, winegrowers, etc. At the beginning of 1935, the society had nearly 80,000 insured members and had issued 87,043 policies for 129,412,650 frs. It operates through 400 individual and three collective agents. Premiums are paid on a sliding

<sup>1</sup> La Paragrêle was liquidated in 1932, as a result of very heavy losses during 1932.

scale. If the policy-holder does not make any claim during two years, his premium is reduced, starting with the third year, by 10 per cent. If he does not make a claim during the next two years it is again reduced by 10 per cent. Such reductions may take place five times and bring the payments to the minimum premium of 50 per cent. On the other hand, if the policy-holder makes a claim, his premium is increased for the next two years by 10 per cent.; such increases can take place five times till the payments reach a maximum of 150 per cent.

During the fifteen years 1920-34, the society subscribed hail insurance for 2,379,137,060 frs. and received in premiums 53,268,246 frs., or 2·24 per cent. of the insured sum. Claims paid amounted for this period to 49,589,216 frs., or 2·08 per cent. These figures show that 93·10 per cent. of all premium receipts were used for the payment of claims, a proportion which is unusual for any other branch of insurance.<sup>1</sup> The management of the society is in the hands of a management council. The council is composed of 15 members elected by the general meeting of the society for three years. The general meeting is constituted by delegates elected at the district meetings of the members of the society. Every 500 members elects one delegate for a period of five years. During 1934, 183 district meetings of members were held which were attended by only 3,780 members, or 5 per cent. of the total membership. The total assets of the society amounted on January 1, 1934, to 7,483,662 Sw. frs., representing 6,952,158 Sw. frs. reserve funds and 500,000 Sw. frs. reinsurance reserves. The society spends on management expenses about 15 per cent. of premiums.

In Switzerland the Central and Cantonal Governments

<sup>1</sup> The percentage of commissions and of sundry expenses has shown a decrease in comparison with that of the last year before the War. Thus we find the ratio of all these expenses to the net premiums in 1913 was 16·6 per cent. It may be added that from 1880 to 1920 the above-mentioned Swiss Hail Insurance Society, the only insurance company for hail whose operations cover the whole country, paid in claims 68·3 per cent. and in administration expenses and taxes 15·4 per cent. of the premiums received, leaving a net profit equal to 25·5 per cent. of these premiums.

have supported hail insurance by special grants. Federal subsidies are granted provided subsidies are also granted by the cantons. These include, besides the recovery of the policy charges, the payment of a sum covering from 10 per cent. to 30 per cent. of the premiums. Up to 1914, the Confederation paid subsidies, the amount of which never exceeded the cantonal subsidies, but by the resolution of the Federal Council of December 11, 1914, the federal grants were lowered and can never exceed 50 per cent. of the policy charges, 20 per cent. of the insurance premiums for vineyards, and 12.50 per cent. of the insurance premiums for other crops. The cantonal subsidies have thus become somewhat higher than the federal subsidies.

In France hail insurance was started in 1888 and is operated by mutual societies and by private limited companies. The mutual hail insurance societies are at present grouped round two central institutions: the National Office of Hail Insurance (*La Caisse Nationale Grêle*), and the Central Office of Hail Insurance (*Caisse Centrale d'Assurance Mutuelles Agricoles contre la Grêle*). At the beginning of 1935, the National Office had 685 local insurance societies and 22 regional reinsurance societies affiliated to it. They comprised 11,343 members and effected insurance covering crops over an area of 65,014 hectares to a total of 199,074,708 frs. During the year, 809 claims were made in respect of 6,730 hectares insured. The affiliated societies received 999,926 frs. in premiums and paid 826,504 frs. in claims. Their reserves at the end of 1933 amounted to 1,620,481 frs.

The second institution, the Central Office of Hail Insurance, had a membership, at the beginning of 1934, of 21 regional societies with 6,297 policies issued for 86,892,389 frs. The affiliated societies received during 1933, 1,144,349 frs. in premiums and paid 316,140 frs. in settlement of 315 claims. The Central Office received 714,886 frs. in premiums and paid 805,768 frs. in claims. The Central Office and its regional societies nevertheless distributed during 1934, 107,233 frs. in return bonuses to local insurance societies.

Apart from the local mutual societies there are in France 12 large mutual societies and 5 limited companies operating

in hail insurance. The comparative operations of the two groups for 1934 can be seen from the following figures :

	12 large Mutual Societies. Frs.	5 Limited Companies. Frs.	Total. Frs.
Values Assured	1,442,308,268	2,620,654,347	4,062,962,615
Premiums or Contri- butions, 1934	18,733,485	52,110,787	70,894,272
Claims paid	6,641,184	27,377,172	37,018,356
Reserve Funds	46,611,862	24,424,216	71,036,078

As can be seen from these tables the limited companies cover nearly twice as much insurance as the mutual societies, but the reserves of *the latter are nearly twice as large as those of the companies.*

In Belgium,<sup>1</sup> too, hail insurance is of long standing. There existed in 1895 eight societies for hail insurance, two co-operative, three mutual and three limited companies. The value of the insured crops amounted at that date to 6,000,000 frs., and during 1895 the policy-holders received 85,480 frs. in compensation. At present, hail insurance is subscribed by the Société d'Assurance du Boerenbond Belge. It acts as an agent for a foreign society and during 1934 subscribed 2,559 policies of hail insurance for 16,318,400 frs. It received during the year 169,029 frs. in premiums and settled 32 claims for 17,334 frs.

In Italy<sup>2</sup> hail insurance is subscribed by private limited companies and by co-operative and mutual societies. Their development can be seen from the following figures : in 1894 hail insurance was subscribed by 19 institutions, including 1 foreign and 1 Italian limited company, 8 mutual insurance societies and 9 co-operative societies. At the end of 1922 as many as 51 institutions were operating. They included 4 foreign and 27 Italian limited companies, 9 co-operative

<sup>1</sup> L. Bouneux, *Manuel Pratique de la Coopération*, 1889, p. 75 ; *Annals*, Paris, 1931, p. 32.

<sup>2</sup> Fugini, *L'Assicurazione mutua contro i danni della grandine*, Bergamo, 1924 ; *International Agricultural Review*, 1924, pp. 447-8.

societies and 11 mutual insurance societies. In 1931 there were 20 limited liability and 7 mutual organisations with premiums amounting to 73 million lire. There were also 3 central co-operative societies. All these bodies had absorbed large numbers of local mutual and co-operative societies, some hundreds of which still existed unattached, or loosely connected with them for reinsurance. The entire organisation of hail and other agricultural insurance was being revised with State supervision on a non-profit making basis.

In Spain hail insurance is now (1935) subscribed by three mutual societies and three limited companies. The most important mutual society, the Mutual Society for Insurance Against Hail (Caja de Seguros mutuos contra el Pedrisko), was formed in 1917 at Madrid by the Spanish Farmers' Association. The second society, the Mutual Spanish Society for Insurance of Rural Risks (Mutua Española de Seguros Agropecuarios), was established by the National Catholic Agrarian Confederation, and the third, the Mutual Society of Agricultural Insurance (Mutua de Seguros Agrícolas), was founded by the efforts of a group of farmer co-operators. The size of the operations of these societies can be seen from the following table :

	<i>Pesetas.</i>	
	<i>Value Insured.</i>	<i>Compensation Paid.</i>
Caja de Seguros mutuos . . . . .	49,770,322.99	940,541.40
Mutua Española de Seguros Agropecuarios . . . . .	18,832,217.79	724,120.00
Mutua de Seguros Agrícolas . . . . .	13,141,019.50	149,233.02

In Scandinavia hail insurance is not less popular than in the Latin countries. In Sweden insurance of meteorological risks has so far been confined to risks from hail, frost and storms. Possibly lightning should be added to this list,

as the fire insurance societies include damage from lightning among their insurable risks. Hail insurance was subscribed in 1901 by two mutual societies. Adopting as its basis the statistics of the meteorological risks of different provinces, the societies fixed a date in the autumn as that up to which the insurance was given. Insurance was also subscribed by one society against damage to autumn crops caused by cold weather in winter. After five years' existence it was seen that, in spite of wide publicity and a considerable amount of work done by the society, only those farmers availed themselves of its services who knew by experience that their crops would almost certainly be ruined every year by frost. As a result, the societies could not continue business and were obliged to go into liquidation.<sup>1</sup>

The mutual insurance societies are the only societies in Sweden which insure against hail risks. They include one society, the operations of which cover the whole country, and seven provincial societies (*lensbolag*), so called because they usually cover only a province (*laen*). In one case, however, three provinces are covered by a society established in 1862. The total risks covered in 1934 amounted to nearly 80 millions of Kr. The premiums vary, but as a rule are not more than 3 crowns per thousand Kr. Each province has fixed a special rate in accordance with local conditions. The premiums of the provincial societies vary within wider limits, and one of them in 1912 fixed the rate as high as 36 crowns per thousand.<sup>2</sup> It may be added that the total value of the premiums paid in 1934 amounted to 330,000 crowns and the compensation payments to 175,000 crowns.

In Denmark insurance against hail and against storms is subscribed by 16 societies. Their operations for 1923 show the following results: the number of insured persons was 88,384, with risks covered, 245,000,000 cr. Premiums amounted to 417,000 cr. and losses to 239,000 cr. The situation as regards insurance against storms may be summarised as follows: Number of societies, 7; number of insured persons, 77,459; risks covered, 1,143,057,000 cr.; premiums

<sup>1</sup> *International Review of Agricultural Economics*, 1924, p. 137.

<sup>2</sup> *Ibid.*, p. 138.

and sundry receipts, 384,000 cr. ; losses, 287,000 cr., and reserve funds, 238,000 cr.<sup>1</sup>

In Holland 12 mutual or co-operative unions for insurance of crops against hail were operating in 1934. Over 470,000 acres were insured for a value of 56 million florins (£7 million).

The Union of the North Brabant Boerenbond was supported by 134 sections and had a capital of 75,000 florins ; the Boerenlenbank, which acted as banker for the insurance unions, complained, however, that the value of the institution was not appreciated in the villages.

In Hungary the Farmers' Co-operative Insurance Society (Gazdak) (see p. 219) is the most important company subscribing hail insurance which stands outside the Pool. In August, 1931, this Pool was again renewed by a formal agreement. Since the commencement of the society's hail insurance operations, the percentage of damage has been maintained at 71 per cent., except in the course of the last few years, during which it has risen to 95 per cent. In 1931 the results were extremely unfavourable and damages, including the cost of assessment, amounted to 118 per cent. of the premiums. The society was obliged to increase premiums for the 1932 season by 20 per cent. In 1934 it received in premiums for hail insurance 747,847 pengö and paid for claims 545,625 pengö. The experience of the society shows that hail insurance is one of the less profitable branches. The claims paid during 1934 under hail insurance policies amounted to 22 per cent. of all payments and the premiums received from this branch represented only 10 per cent. of all premiums.

In Czechoslovakia hail insurance is subscribed by 21 national insurance societies, including 11 limited companies and 10 co-operative associations. They operate, in accordance with the law, under the strict supervision of the State. The companies are obliged to maintain a reserve for securing

<sup>1</sup> Strickland, *Studies in European Co-operation*, Vol. I, pp. 23-4.

the interests of the insured persons or of other claimants on the basis of the insurance agreements. Direct supervision is undertaken by the Minister of Internal Affairs, who must satisfy himself that the companies in question are complying with the rules laid down for them, the constitution approved by the public authorities and the conditions contained in the working concession.

The number of policies issued in 1928 by the co-operative associations amounted to 62,170 for 935,087,178 Kč. insured, and by the limited companies to 18,737 with 735,037,792 Kč. It can be seen from these figures that the co-operative associations have issued more than three-quarters of all policies. On the other hand, the private hail insurance companies cover much larger risks than the co-operative associations; the average risk covered by the latter amounted to 39,200 Kč. and by the former only to 15,000 Kč. Claims dealt with by the co-operative associations in 1928 numbered 13,183, with a value of 19,069,574 Kč., the corresponding figures for the limited companies being 8,070 for 16,054,942 Kč.

The following figures indicate the volume of hail insurance transacted by both groups in 1932 (in 1,000 Kč.) :

	<i>Total.</i>	<i>Co-operative Associations.</i>	<i>Limited Companies.</i>
Premiums paid . . . . .	20,953	16,463	4,490
Net premiums paid (deducting reinsurance) . . . . .	9,036	7,557	1,479
Total compensation paid . . . . .	17,996	14,629	3,367
Net compensation paid (deducting reinsurance) . . . . .	8,137	6,888	1,249

In Germany hail insurance is operated by two classes of undertakings, private companies and public institutions. The private companies operate under the inspection of the National Office for Supervision of Private Insurance (Reichsaufsichtsamt für Privatversicherung). In 1932 there were in operation four joint stock companies, seven large mutual insurance societies (accepting premiums to an amount in excess of 1,000,000 M. in 1931) and five small mutual societies (accepting premiums to an amount not exceeding 1,000,000



M. in 1931). The sphere of activity of the small societies often extends beyond the territory of the State (Land) in which their main offices are situated.

The operations of the large mutual hail insurance societies can be seen from the following table :<sup>1</sup>

<i>Name of the Society.</i>	<i>Number of Policies Issued.</i>	<i>Insured Sums. (1,000 M.)</i>	<i>Premiums. (1,000 M.)</i>	<i>Claims Paid. (1,000 M.)</i>
Ceres V.G., Berlin . . . . .	28,307	89,731	1,818	825
Deutsche Hagel V.G., Berlin . . . . .	15,719	68,743	1,250	774
Norddeutsche Hagel V.G., Berlin . . . . .	219,032	854,475	14,056	8,460
Landwirtschaftliche V.G., Greifswald . . . . .	9,007	143,572	974	674
Gesellschaft zur Gegenseitiger Hagelschadenvergütung, Leipzig <sup>2</sup> . . . . .	23,596	114,394	1,855	1,806
Mecklenburger Hagel und F.V.G., Neubrandenburg . . . . .	3,861	125,879	1,147	918
Schwedter Hagel u. F.V.G., Schwedt . . . . .	12,961	248,432	3,981	3,175

In the Balkan countries hail insurance is subscribed on a large scale in Roumania, Bulgaria and Yugoslavia.

In Roumania there is in operation a Hail Pool constituted in 1932 by nine companies, which jointly maintain a central organisation known as "Birou Central de Grindina" (Central Hail Office). This office is not incorporated, its duty being the joint direction of hail insurance operations. The constituent companies are free in the matter of obtaining business ; each company is the sole judge of the number of insurance contracts which it can and is prepared to underwrite, and the staff of the company is in each case in charge of such operations.

The Central Hail Office has charge of the accountancy, which is carried on jointly. The gross incomes of the various companies, regardless of profit or loss, are pooled. After

<sup>1</sup> *International Review of Agriculture*, 1935, No. 6, pp. 226-34.

<sup>2</sup> This society has increased at the beginning of 1936 the number of policies issued to 23,795. During 1935, 1,344,000 M. were received in premiums and 1,113,000 M. paid in claims.

deducting the joint administration costs, the net deficit or surplus is allocated among the companies forming the Pool in proportion to the aggregate of premiums received by each company.<sup>1</sup>

A special feature of interest in the organisation of hail insurance in Yugoslavia is that in this country compulsory hail insurance has been partly brought into force. There are nine hail insurance companies operating in Yugoslavia, and only one of them, the "Croatia" Insurance Society, Zagreb, is a co-operative society. It subscribed, in 1932, 488 policies (out of a total for all companies of 4,289) for 7,153,000 dinars (out of a total of 89,165,000). It has paid in compensation during the year 425,000 dinars for 109 claims.

The steady fall in prices of farm products and the marked decrease of the profitability of agriculture in Yugoslavia has reacted unfavourably on the turnover of the hail insurance institutions. The number of policies has dropped from 15,388 (1929) to 3,509 (1933).

There is also a Hail Insurance Pool in existence. In 1932, 86 per cent. of the total proceeds of hail insurance business belonged to the companies grouped in the Pool; about 14 per cent. of the total proceeds belonged to the two societies, "Croatia" and "Slavya", which took part in the convention, but not in the clearing.<sup>2</sup>

Hail insurance in Bulgaria was effected by the insurance section of the Central Co-operative Bank of Bulgaria at Sofia. The funds of the hail section must be devoted exclusively to the objects of hail insurance and are under separate management. The foundation capital of the institution has been fixed by law at 30 million leva, to be supplied by the State. Apart from these funds the law affirmed that the institution should receive from the State a yearly subsidy. During 1930 only 2 million leva were paid. The payment of claims and overhead expenses is covered by premiums received in the course of

<sup>1</sup> *International Review of Agriculture*, February, 1934, pp. 77-8 and 83.

<sup>2</sup> See *International Review of Agriculture*, 1935, No. 4, pp. 161-7.

the year, together with subsidies granted by the State and interest earned by the funds. The reserve funds are accumulated from surpluses, entrance fees, certain penalty payments which, in accordance with the law, must be passed over to the reserve fund, and, finally, donations and bequests.

In 1912, when hail insurance was started, more than 17,000 farmers insured their crops against hail. In 1915 the number had doubled, and in 1917 it reached more than 38,000. After that date, however, hail insurance entered a period of unexpected decline, the reasons for which are by no means clear. In 1922 the number of farmers who had insured their crops against hail sank to the low level of 7,713. Then the number began to increase, and in 1925, after the introduction of new legislation and changes in the management of the Central Co-operative Bank of Bulgaria, which undertakes this class of insurance, it reached 25,400, and it has since grown to over 100,000.

The new Law on Agricultural Insurance, passed by the Chamber in 1925, introduced considerable improvements in the system by granting societies effective State aid for the mutual insurance of crops, and has greatly contributed to the striking increase in this class of insurance. This new Law provides for the organisation of insurance not only against hail, but also against frost, drought and floods.

The following table summarises the development of co-operative hail insurance in Bulgaria :

<i>Year.</i>	<i>No. of Policy- holders.</i>	<i>Total Sums Assured. In Leva.</i>	<i>Premiums Received. In Leva.</i>	<i>Compensation Paid. In Leva.</i>
1912 . . .	17,548	28,255,390	630,790	1,037,726
1919 . . .	31,064	123,316,620	4,805,292	4,155,393
1933 . . .	104,252	742,577,970	27,566,924	23,655,763

The policies are issued mainly to smallholders. Rates vary according to the nature of the risk, as determined by geographical situation and the nature of the crop. The compensation payable is at the rate of 80 per cent. of the damage. The Hail Branch of the Insurance Section is at the present time the only institution in Bulgaria which provides insurance against damage by hail. On October 15,

1935, 117,440 insurance policies against hail were in force. During the year, 1,363 claims from 1,100 villages were put forward for 33,480,000 leva; out of these, 29,722,782 leva were paid in compensation to 17,215 farmers and landowners. Conditions for the development of the insurance branch of the Agricultural and Co-operative Bank are quite favourable, but the depreciation of the prices of agricultural products prevents the rapid extension of hail insurance.

The Central Co-operative Bank has organised a regular service for observation of hailstorms and the damage resulting therefrom. This service works independently of the State Meteorological Service. An active popular propaganda for hail insurance is carried out, especially on April 27 each year, which has been fixed as Hail Insurance Day.

The losses due to hail are assessed by experienced farmers who act in the capacity of experts, with or without the assistance of the professional agricultural experts or the officials of the Central Administration. These farmer-experts are appointed by the Central Administration after consideration of local recommendations and consultation with the local professional experts. During 1933 local and other authorities gave 458,078 leva in subsidies. In addition to the initial capital, there was, on January 1, 1934, a reserve fund amounting to 58,754,277 leva.<sup>1</sup>

Hail insurance is not confined to Europe, but is also subscribed in Africa and America. In Africa it exists in the French Colonies and in the Union of South Africa. In Tunis hail insurance and fire insurance are effected chiefly by the agricultural co-operative insurance organisations working in accordance with the Beylical Decree of March 26, 1931.

In the Union of South Africa hail insurance operations were started in 1929 by the Farmers' Hail Insurance Society at Ficksburg (Orange Free State). According to this scheme, farmers, co-operative agricultural societies and any associations which come within the ambit of the Co-opera-

<sup>1</sup> *The Hail Insurance Department of the Central Co-operative Bank of Bulgaria*, pp. 281-2.

tive Societies Act, become members by application to the board of directors. The society has a working capital, an insurance fund and a reserve fund. The working capital is provided by an annual levy of 1 per cent. on the amount of insurance proposed to be taken out by each member, payable in cash at the time of making the proposal.

The balance of the working capital remaining unexpended on July 31 each year must be set aside as a reserve fund for payment in compensation for any loss or damage to members who have contributed to such working capital and for which loss or damage the insurance fund may prove to be inadequate. The interest or holding of each member in the reserve fund is calculated according to the contribution made by him towards the working capital. The distribution among the claimants of the proportion of the insurance fund to which they are entitled takes place annually on March 31.

All profits earned by the investments of the society must be carried to a dividend account and must be distributed to the members annually in proportion to their holding in the reserve fund. No member may receive out of the reserve fund compensation beyond the value of his holding in the fund. A member may decide not to take such compensation: in this case, his holding in the reserve fund remains undiminished. The compensation paid out of the reserve fund in any one year must not exceed two-thirds of the amount of the fund. If necessary, in order to keep the compensation paid within this limit, all claims may be reduced proportionately. No amendment to the provisions relating to the reserve fund may be made until it reaches a minimum sum of £50,000.

A member wishing to insure his crop must furnish the society, after October 1, with a proposal for insurance upon a form approved by the society. Every member is at liberty, at any time before loss or damage has occurred, to have the value of his crop estimated at his own expense, by one or more assessors. Such valuation must be lodged with the Board of Directors for guidance of the assessors in the event of damage occurring. The assessors must pay due

regard to pre-valuations. Whenever the crop of a member suffers damage by hail, he must, within three days, furnish the society with an estimate of such damage, after which the assessors proceed to appraise it.

At the beginning of 1932 the society had 2,300 policies in force covering an area of 200,000 morgen. A cash levy of 3 per cent., amounting to £31,500, was charged during 1931. The management expenses absorb about 1 per cent. of the insured sum. In 1935 the membership has grown to over 3,000; over 1¼ million bags of wheat were covered and only 55,000 bags damaged.

In America co-operative and mutual hail insurance societies operate in Argentina, Canada and U.S.A. In the Argentine<sup>1</sup> 38 insurance institutions, 30 limited companies and 8 co-operative societies were in 1931 subscribing insurance against hail damage to wheat, linseed, oats, barley, rye and canary-grass.

The Argentine Agricultural Federation,<sup>2</sup> one of the two great associations of Argentine growers, the other being the Association of Argentine Co-operative Societies, has established a co-operative hail and agricultural accident insurance society, which, in the course of fifteen years of activity, has insured crops to the total value of 133,672,977 pesos and has paid claims amounting to a total sum of 6,754,309 pesos.

As hail insurance has been in operation in the Argentine since 1894, the experience gained by the companies in this class of insurance has made it possible to draw up a differentiated schedule of premiums in the different zones of the "cereal region" of the country. These rates, classified according to three groups of products, indicate with fair accuracy the degree of danger from hailstorms in the different areas.

<sup>1</sup> *International Review of Agriculture*, July, 1934, pp. 287-93.

<sup>2</sup> This Federation, which was founded in 1912, has acquired great importance. The sphere of its activity extends over 1,500,000 km., and nearly 50 per cent. of the areas under the plough in Argentina are cultivated by growers belonging to the Federation. The membership of the Federation exceeds 23,000.

Of the total area of 6,182,643 hectares covered in Argentina by insurance, 5,048,028 hectares, or over 80 per cent., were insured by the limited companies, and 1,134,615 hectares, or more than 18 per cent., by the co-operative societies. The ratio of compensation to values insured is 3.29 per cent. for the limited companies and 3.45 per cent. for the co-operative societies. The ratio of compensation to premiums received is 58 per cent. for the limited companies and 61.5 per cent. for the co-operative societies. During 1930-31 eight co-operative societies subscribing hail insurance in Argentina issued 11,234 policies (out of a total of 73,512) for 42,818,265 pesos. Premiums received amounted to 2,400,928 pesos and claims paid to 1,477,495 pesos.

In Canada hail insurance is effected by two types of institution: limited companies and municipal mutual insurance associations. In 1929 there were in Canada 41 limited companies with a Dominion licence dealing with hail insurance. In the prairie provinces, Saskatchewan, Alberta, Manitoba, the intention has been to form an inter-municipal organisation for hail insurance. The premiums received amounted to \$3,571,334 and the claims to \$1,013,527.

In the United States hail insurance covering growing crops is carried on by three types of institution: (a) joint stock fire insurance companies, which undertake also hail insurance of crops; (b) mutual hail insurance companies which, with a few exceptions, engage exclusively in this class of business; (c) State Hail Insurance Boards or Departments, under whose direction and control State Hail Insurance Funds are administered.

So far as can be gathered from official sources, the first organisation in the United States to undertake hail insurance of growing crops was a small mutual society organised in 1880 by the tobacco growers in Connecticut. This society came to an end in 1887, but was promptly succeeded by another hail mutual insurance society organised in an adjoining county. No other exclusive hail companies appear in the official records earlier than 1889, in which year four

mutual hail insurance companies were reported from North Dakota.

Many of these early mutual insurance societies proved to be short-lived, but by 1900 there were 37 mutual hail insurance societies in existence in seven different states. The total premiums and assessments collected by these societies in 1900 amounted to approximately \$643,000, and the losses incurred in compensation payments amounted to \$407,000. In 1905 the total number of hail mutuals was still 37. Some had dropped out since 1900 but others had taken their place. The total premiums received by these societies during the year were \$800,000, and the losses were approximately half that amount. In the five-year period following 1910 the number of societies increased to 39, and their total premiums in 1915 exceeded \$3,330,000, that is more than threefold the amount for 1910. The total number of mutual societies operating hail insurance in the course of 1919 was 41, including 15 founded during the period 1915-19.

The hail insurance companies in the United States make use as a rule of two types of insurance contract: either a hail-damage clause is added to the policy of insurance against tornados or windstorms, or they issue a special policy for hail insurance. When the hail-damage clause is introduced, the engagement on the part of the company to compensate for losses due to windstorms, cyclone or tornado is extended to damage caused by hail. Ordinary hail insurance policies usually contain provisions in accordance with which (a) the period of cover is limited to the growing season, and insurances cease to have effect so soon as the insured crops are harvested; (b) when another insurance exists, compensation is made pro rata; (c) no claim can be put forward unless the damage exceeds 5 per cent. of the total insurance cover; (d) if the losses are less than 5 per cent., the insured must pay the costs of survey; (e) only damage directly caused by hail is covered by the insurance; (f) claims in respect of loss resulting from failure to harvest ripened crops are not entertained; (g) in case of claim the area damaged must be precisely determined.

In 1930 the mutual insurance societies, existing mainly



in the central part of the north of the United States, numbered 37, most of these dealing only with hail insurance of crops, while some also undertook insurance of buildings and farm equipment against damage caused by storms. It has been computed that in 1930 the mutual societies collected \$4,250,000 in premiums. In the same year the number of national joint stock companies dealing with hail insurance entered in the list of the *Insurance Year Book* for 1931, was 115, with a total of premiums of \$10,171,814 and compensation payments of \$6,120,027.

#### (d) LIVESTOCK INSURANCE

Livestock insurance is one of the most intricate forms of insurance activity. It is of very great importance to the farmer whose capital is frequently limited to a few cows and horses. Since their produce and labour is often his main source of income, any misfortune befalling them would reduce the farmer to the most dire poverty. Livestock insurance originated quite early and made progress in various countries mainly in the mutual form. In many countries the State comes to the assistance of mutual and co-operative livestock insurance societies by appropriate legislation, by providing reinsurance facilities or by granting special subsidies. The success of the livestock insurance depends to a very great extent upon its proper organisation. The elimination of the moral hazard and the lowering of the cost of insurance are the two main problems that such an organisation has to solve. The co-operative and mutual form is the most suitable for this class of insurance, because, it being rarely possible to make enough profits to pay dividends on capital, livestock insurance is not of much interest to private enterprise.

The methods of compensation employed by mutual and co-operative livestock insurance societies are varied, but the most characteristic of them can be described as follows : Under the first and earlier system, especially common in Eastern Flanders, no regular premium is required of the members and there is thus no actual insurance fund. When the death of an animal occurs and the carcass is declared to

be fit for consumption, each member is expected to buy at a previously fixed price a quantity of the meat proportionate to the number of animals which he has insured. Even if the meat is not eatable each member still pays for the nominal number of kilogrammes he would have purchased at the fixed price, and the sum thus collected is handed over to the farmer who has lost the animal.

The second system is that of mutual insurance on the basis of a fixed premium, payable annually or monthly for each animal insured. Premium and compensation vary according to the class of the insured animal. If the meat is declared fit for consumption the amount of the compensation is reduced accordingly. In exceptional cases the local society may demand the payment of a supplementary premium, as, for example, in the event of exceptionally heavy losses, but as a general rule the insured persons simply pay their premium and thereby discharge all obligations.

The system which is based on fixed premiums has unquestionable advantages, but it has also its drawbacks, to which attention should be drawn. Although the actual work involved is not heavy, and in consequence the cost of bookkeeping and management is kept at a minimum, this system very often gives rise to injustice, when compensation is fixed, to discussions among the members as to the class to which the animal to be insured should belong, and to inevitable miscalculations in the case of epidemics or excessive losses. In consequence, the Belgian voluntary mutual insurance societies are, with rare exceptions, adopting the third or variable premium system.

The third system is based on a periodical valuation of the animals on the lists of the societies. As a rule, their value is fixed twice a year and the premium calculated on 100 franc units of the sum insured. This periodical valuation obviously causes a certain amount of labour, but the system presents certain real advantages. In the local cattle insurance societies the maximum value of cattle is declared, the same applying also to horses, mules, etc. Even if a cow has an exceptional value for breeding purposes, only its value as meat is taken into account.

In some countries livestock insurance is organised by the mutual and co-operative insurance associations (Belgium, Denmark, England, Holland, Luxembourg, Palestine, Czechoslovakia, Hungary, Finland and India) operating on their own. In other countries it is conducted by mutual and co-operative associations or special local associations under the supervision and with the assistance of the State. France presents a characteristic example of this system. Switzerland, Italy and Bulgaria have also established livestock insurance under State supervision, control or participation. Let us deal with these two groups of organization separately.

In Belgium livestock insurance societies were founded about 1870, a period in which the position of the small farmer was precarious. There were already in existence at that time large limited liability insurance companies, which covered livestock mortality risks for a heavy premium, but these companies were conducted on a profit-making basis, and their sphere of operations was too wide to allow any real check or supervision. When the small insurance mutual societies were started they developed very rapidly, and in 1897 there were already 290 registered and 146 non-registered local societies with 28,104 and 12,920 members respectively. The capital of the first group amounted to 173,326 frs., and of the second to 54,804 frs. Nearly all these societies adopted the forms prescribed by the special law of mutuality, only four of them being registered as co-operative societies. The movement has grown rapidly, and at present livestock insurance for horses, sheep, pigs and goats is subscribed in Belgium by local mutual societies which are grouped in reinsurance federations in every district. In 1927 these societies and their federations were operating as follows :—

	<i>No. of Federations.</i>	<i>No. of In- sured Animals.</i>	<i>No. of Carcases Dealt With.</i>
Sheep . . . . .	12	114,800	552
Horses . . . . .	9	44,700	200
Goats . . . . .	4	20,200	271
Pigs . . . . .	2	7,200	38

Many regional agricultural federations in Belgium have

organised reinsurance facilities for the mutual local societies subscribing insurance of cattle and horses. These societies usually issue policies with fixed premiums at lower rates and return bonuses on surplus earnings.

The following table shows the activities of the main reinsurance federations in Belgium at the beginning of 1935 :

	<i>No. of Members.</i>	<i>No. of Insured Animals.</i>	<i>Sum Re- insured in Francs.</i>	<i>Per cent. of Losses.</i>
Réassurance bovine du Brabant . . . . .	4,353	9,295	18,904,400	3.30
Fédération de Réassurance bovine du Limbourg . . . . .	10,095	24,991	54,253,050	3.05
Fédération libre de Réassurance de la Province d'Anvers . . . . .	2,661	9,171	—	4.20
Fédération de Réassurance bovine de la Flandre Occidentale . . . . .	1,894	8,997	18,515,950	3.40
Réassurance chevaline du Brabant . . . . .	4,603	5,545	19,300,400	3.50
Réassurance chevaline du Limbourg . . . . .	3,470	4,951	16,811,875	3.78
Réassurance chevaline de la Flandre Occidentale . . . . .	6,839	12,634	47,085,350	2.73

Denmark was one of the first countries to introduce livestock insurance on mutual lines. There is reason to believe that as early as the eighteenth century Danish peasants formed primitive and informal village societies for the purpose of insuring against loss of livestock, a kind of collaboration whereby losses were at once covered by a levy on the members. Early in the nineteenth century several insurance companies were formed, of which one, dating from 1812, is still in existence. Its articles of association, amended in 1855, containing reminiscences of the old village laws (in Danish *bye-lov*), provided not only for insurance of horses and cattle, but also for the keeping of a village bull and village boar for the common use of members, *e.g.* the peasants in the village. Down to the year 1900 there were

as many as 41 such societies still in existence, which had been formed previous to the free constitution of 1849. All these were quite small and primitive in their organisation. After 1850 insurance societies were formed in greater numbers, and of more modern kind, but most of them confined their sphere of action to one or two parishes, some of them even stipulating that only peasants could be admitted as members. Only one society was operating for farmers all over the country, and a few were for a group of parishes or a district. It was for some time a disputed point whether insurance societies should be small and co-operative, or large and joint-stock companies; but the small societies have eventually held the field.

An official inquiry made in 1915 showed that there were then in operation 2,221 general livestock societies, besides some which only insured against diseases, such as foot-and-mouth disease. Of these 2,221 societies, 1,090 insured horses, 757 cattle, 212 pigs and 162 insured several kinds of stock. The number of stock insured was: 405,000 horses, insured for £16,300,000, or 78·6 per cent. of the total number of horses in the country and 81·8 per cent. of all farm holdings with horses; 330,000 head of cattle, insured for £5,440,000, being 14·5 per cent. of all the cattle in the country, but 36·4 per cent. of the number of herds. It appears from these figures that the animals insured belonged mainly to small herds. Sheep and pigs were insured only to an insignificant extent. The societies were mostly small, half of the number of those insuring horses and cattle numbering less than 200 animals per society. In annual premiums £390,000 was paid for the insurance of horses and £111,000 for cattle. The cost of administration is, on an average, 3 per cent. of the annual premiums.<sup>1</sup>

In Holland mutual insurance of cattle, horses, sheep, goats and pigs is carried on in a co-operative spirit by numerous local associations, which, however, are not for the most part combined in unions for reinsurance purposes. There are about 1,000 cattle insurance associations, with

<sup>1</sup> Harald Faber, *Co-operation in Danish Agriculture*, pp. 152-3.

400,000 cattle insured. Of these, 600 associations cover the insurance of 100,000 horses, 150 societies effect insurance of sheep or goats and about the same number insure pigs. Insurance of cattle was centralised to some extent by the Veerisico of Amsterdam, by the establishment of provincial associations to which local societies were invited to affiliate. The associations admit both individual and collective members and are intended for pedigree animals of high value, particularly those in the Herd-books. Primary societies insure only up to a limit of 300 florins, the excess value being insured directly by the provincial association or through the society. The Friesland Association quotes a premium of 3 per cent. and pays a compensation varying from 50 per cent. to 90 per cent. An extra levy, if necessary, is made on the members. Members must insure all male animals inscribed in the Herd-books, and if they wish to insure cows, they must insure all those approved by the Association. Animals are admitted from the age of one to ten years. The smaller societies collect a premium fixed at the annual meeting, and make a subsequent levy if occasion demands it. Their liability is unlimited.

In North Brabant a few hundred societies operate a section of the North Brabant Boerenbond: 131 for cattle, 149 for horses and 17 for pigs. Some of them collect premiums to cover claims; others compensate their claimants solely by levy. The latter method would appear to involve inconvenient delays. Defaulters can be expelled from the Boerenbond and lose their membership of the insurance section.

A central body for reinsurance up to 80 per cent. of the risk was founded in 1920. The articles of association are similar to those of Friesland, except that beasts may be admitted from the age of six months. The last obtainable figures for the year 1933 are as follows:

<i>Kind of Livestock.</i>	<i>No. of Insurance Societies Supplying Information.</i>	<i>No. of Policy-holders.</i>	<i>No. of Insured Animals.</i>
Horses . . . . .	674	77,746	121,105
Cattle . . . . .	1,009	99,682	500,161
Pigs . . . . .	195	19,671	61,505
Sheep and Goats . . . . .	103	3,139	4,939

In the case of horses, nearly half of all horses above the age of three years are insured, and in the case of cattle about one-fifth of the whole stock. On the other hand, the proportion of pigs, sheep and goats insured is very small. The average of 1.6 for horses and 5 for cattle per policyholder is sufficient evidence that considerable use is made of insurance societies by the medium-sized and small farms.

In Luxembourg the Union of Farmers' Mutual Insurance Societies (*Fédération des Sociétés de Secours Mutuelles contre la Mortalité du Bétail*) was established for livestock insurance in 1905 and operates successfully.

In England a number of small mutual insurance societies, better known as cow and pig clubs, are in operation. The Ministry of Agriculture ascertained that there were over a thousand pig insurance societies and approximately 150 cow insurance societies immediately before the War. A survey which was made in 1926, however, clearly showed that both in numbers and membership these small societies have rapidly declined since 1913. Of over 800 known pig clubs in 1911 only 300 were traced in 1926. Taking 1913 as indicating a 100 per cent. membership and pigs insured, the corresponding figures for 1926 would be 74 per cent. and 79 per cent. respectively. The decline in the number and membership of the cow clubs has been even more severe.

Both the cattle and pig insurance societies are mutual organisations consisting mainly of very small holders and cottagers in the district where the society has been formed. All the societies have some form of rules, but these are not in any way as comprehensive and binding on the member as are the rules of similar continental societies. The administration of such a society is in the hands of a president, secretary and a management committee of from four to six members. With a few exceptions all the societies charge an entrance fee on new members ranging from 6d. to 3s. 6d. per animal in the case of pigs and 2s. 6d. to £1 10s. per animal in the case of cows. No attempt seems to have been made to insure horses or sheep. Premiums for pigs

vary from 1s. to 6s. per animal per year, and for cows from 2s. to 12s. Compensation varies in different societies—some paying full market value, others two-thirds of that value.

Mention should also be made of another form of mutual insurance which has developed of recent years in Great Britain—slaughter insurance. Owing to the stringently enforced regulations governing the sale of meat, butchers are liable to suffer heavy losses on account of animals being condemned as unfit for consumption. With a few exceptions the butchers themselves organise an insurance fund to cover themselves against the risk of meat condemnation and farmers are not asked to contribute to the scheme. One association investigated had approximately 140 butcher members insuring annually 14,000 cattle. It was found very early in the history of this society that cows were a very unprofitable class and had to be abandoned. The premiums charged for other classes of cattle vary from 1s. 6d. per head for bullocks and heifers, to 7s. 6d. for heifers once calved. Compensation is paid at the rate of two-thirds the market value.

Livestock insurance is covered in various parts of Czechoslovakia by institutions of different types. In Bohemia it is run by private companies and in Moravia by a National Insurance Institute. Apart from these there are special local societies for livestock insurance, which are united in the Czech Federation of Insurance and Reinsurance of animals engaged in agriculture. The Federation was established in 1914, and at the end of 1935, 490 small local mutual societies were in operation covering livestock and fire insurance. These societies had 355,128 members and a total premium income of nearly 27 millions Kc., of which 7 millions Kc. were of livestock and 20 millions Kc. of fire insurance.

The Hungarian Mutual Animal Insurance Society was established in 1898 with a capital of 220,300 cr., to which the State contributed 20,000 cr. It insures horses and horned cattle and also subscribes special livestock insurance risks (epidemics, castration, racing). The Minister of



Agriculture insures with the society bulls, stallions, etc., which are distributed over the country for breeding purposes.

The society has striven to establish local co-operative insurance societies which might later associate for the purpose of reinsuring their risks. These endeavours have met with great success. Before the War there were in Hungary over 1,000 local co-operative insurance societies in operation. As a result of the War and the post-war crisis, many of these societies were liquidated, and only after an interval of fourteen years, when the Hungarian currency achieved some stabilisation, did the work of re-establishing the local co-operative insurance system start again. This was not too easy a task, because the reserves of the local societies were destroyed by inflation, and could not be fully restored, even by the granting of State subsidies. The development of the movement, therefore, proceeded at a slow pace. In order to reduce the expenses, the society needs to subscribe a considerable amount of insurance for non-co-operative clients. These are mainly the Ministry of Agriculture and local communities, to 600 of which the Central Society had issued policies covering 61,000 cattle. Half per cent. of the insured value is paid to the Central Society in return for which the society provides the communal authorities with lymph against anthrax, gangrene, swine fever, etc. It also bears the liability for all damage exceeding 4 per cent. of the insured value. The society acts as a reinsurance office for the small local insurance associations. These subscribe livestock insurance only for animals older than three months and under twelve years of age. If the animals are badly fed, the policy can be cancelled. Members contribute up to 4 per cent. of the insured value of cattle and 5 per cent. of the insured value of horses and pigs. The members pay, in addition, a levy to cover the actual losses incurred during the year, which is payable within eight days after the presentation of the account. The local society pays the costs of medical attention and medicine. It pays losses up to 80 per cent. of the insured sum, and in cases where the loss is more than 4 per cent. of the total

sum of the policies subscribed by the local society, the excess is paid by the reinsurance society.

At present an attempt is being made to insure the cows of members of the co-operative dairy societies in such a manner that the dairy societies would serve as agents of the central insurance organisation and supervise the activities of the local co-operative insurance societies. It is hoped that this innovation will result in an increased volume of business and reduce expenses. The society provides the local societies with all necessary printed matter, advice and directions in regard to management, and hereby popularises the idea of co-operative insurance among small farmers and brings home to them, through direct experience, the value of inoculation.

Livestock insurance is not confined to Europe, but can also be found in Asia—in Palestine and India. Rural co-operative insurance is conducted in Palestine by three cattle insurance societies, one of which has already operated for fourteen years. In 1931 they had insured 5,240 head of cattle in 94 villages for the sum of £140,000.<sup>1</sup>

In India cattle insurance societies, providing their members with indemnity in case of loss of cattle by death from disease or accident, have so far been tried only in 5 provinces, and there only on a small scale. Generally the societies undertake to insure plough cattle, cows and buffaloes between the ages of four and twelve. In the Punjab several societies for insurance of horses were started, but the attempt failed. Except in Burma, these societies have no share capital, and the funds are derived from premiums; reserves are accumulated by fines, admission fees, donations and interest on investments. In order to popularise the movement, the share system with dividends and bonuses was very recently introduced. In provinces where societies operate with no share capital, the liability of a member is limited to the amount of premium payable by him. The premium rates are decided upon by the general meeting, but the

<sup>1</sup> N. Barou, *Co-operation in Palestine. Annals of Collective Economy*, 1932, No. 2, Vol. VIII, p. 228.

usual rate is 5 per cent. of the value of the animal as annually determined by the valuation committee, payable in two half-yearly instalments.

Except in the small province of Coorg, it is only in Burma that cattle insurance has made any progress. Burma had at one time 379 societies, whose work was steadily improving. Death reports are submitted more punctually and indemnities more promptly paid than used to be the case. The funds accumulated by the Upper Burma Central Reinsurance Union amounted to approximately 9 per cent. of the risks insured, as a result of three years' working. The latest news from Burma is, however, discouraging, as may be gathered from the following description of the situation supplied by a competent observer in October, 1935: "Cattle insurance is at a standstill. Societies for the most part are being wound up. The number of societies of this class at the beginning of the year 1934 was 255 and at the end of the year, 244. Mandalay is the only centre where there is any real desire for this form of co-operation. The Central Cattle Reinsurance Society has applied to Government for assistance, and its fate has now been under consideration for a long time. It is not feasible to attempt to do anything at present. Cattle insurance is one of the most difficult branches of co-operation, and to make it a success in a province where the simplest form of co-operation has failed, requires very cautious supervision and would require considerable official staff, which the Government cannot at present afford. I am afraid, therefore, that co-operative agricultural insurance in this province can be regarded as dead, and that it is only a matter of time before what still remains will have to be closed down. When there are no prospects of an adequate staff for supervision, it would be an improvident and reckless thing to undertake still further commitments."

Bombay, the United Provinces and the Punjab have a few societies which are not in a very flourishing condition. The Registrar of the United Provinces explains that the great difficulties are frequent changes made by the members in their cattle holding and, above all, lack of comprehension

of the operations and of faith in the benefit of such societies. It is questionable whether co-operative cattle insurance has any future before it in India, except in the case of expensive cattle.

The State-aided group is composed of the mutual and co-operative livestock insurance organisations in France, Italy, Switzerland and Bulgaria. France can be regarded as the originator of the State-aid method, and the description of the French system will be given first.

Insurance against livestock losses in France is conducted by three types of institutions: by limited companies, by large mutual societies and by small mutual societies. In 1933 there were in operation 6 limited companies and 17 large mutual societies. In addition there is a large number of small mutual agricultural insurance societies, which deal with livestock insurance.

The local insurance societies may be institutions for direct insurance or reinsurance societies of the first and second degree. A separate institution should be established for each class of risk. In the same commune only one local society for each class of risk is allowed to benefit from the State subventions. Where there are two mutual institutions in the same place, the one which first lodged articles of association at the Mairie is given the preference, provided that its operations are properly conducted in accordance with the terms of the legislation in force.

Livestock insurance in France has been developed on a very large scale by the agricultural mutual insurance societies with the assistance of the State. In 1921 there were 10,212 such societies in operation for direct insurance and 78 for reinsurance. The societies for livestock insurance are the oldest and most numerous, but a large number of them neglect to reinsure. The 78 reinsurance societies did not, in fact, include more than 2,977 societies. To a very large extent the State supervises the activities of the societies. The annual premium is fixed by the rules: it cannot be less than 1 per cent. of the value of the animals for societies that insure cattle only; 1.50 per cent. for societies insuring horses, mules, etc., only; 1.25 per cent. for societies insuring

cattle and horses, and 3.50 per cent. for societies insuring pigs. The amounts of compensation to be paid are also fixed by the rules, but they cannot in any case be less than 50 per cent. or more than 80 per cent. of the net loss, which is defined as the value of the animal affected (as fixed by experts), less the value of its meat and other utilisable parts of the carcass. The compensation may, however, be based on the total of the gross loss without deduction of the value of the meat.

The mutual societies for reinsurance against livestock mortality and fire, which in their turn reinsure the risks with a Central Reinsurance Society, may obtain from the Ministry of Agriculture grants-in-aid of two kinds.

Finally, in the event of the winding up of a reinsurance society, the part of the assets of the society provided by State subvention is paid into an agricultural mutual insurance society or to a public utility scheme named by the general meeting of the members, subject to the approval of the Minister of Agriculture. The surplus is utilised in accordance with the provisions made by the rules, but it can never be divided among individual members.

It should be noted that the above provisions relate solely to mutual insurance societies for livestock and hail risks.

On January 1, 1929, the mutual agricultural insurance societies numbered 6,470 local mutual institutions and 80 regional or departmental reinsurance houses. The societies on this date had a total membership of 311,822 persons and the value of the stock insured was 2,101,040,060 frs. The number of the animals insured was thus distributed: cattle, 707,480; horses, 201,481; other stock, 23,090. The contributions paid amounted to 33,134,117 frs. and the value of the losses sustained was 33,445,618 frs.

During the last years there has been a slight increase in the number of societies, but it should be observed that the number of members and the value of the stock insured have remained almost stationary.

The National Office for livestock insurance had affiliated to it at the end of 1934, 51 reinsurance societies, with

2,500 local societies having 67,000 members, and 165,000 insured animals with a value of 400,931,658 frs. Premiums received for the year 1933 amounted to 1,094,356 frs. and disbursements to 1,130,338 frs., the loss incurred during the year being 35,982 frs.

In Italy, especially in the small rural communes of the Alps, there are livestock insurance societies which date back over a considerable period. At present, local co-operative cattle insurance is built up in Italy on the following lines: (a) it must limit itself to a small area with a population not exceeding 5,000 inhabitants; (b) annual premiums or contributions must be fixed within the limits prescribed by the Minister of Agriculture; (c) it must observe the principle of honorary administrative services, the secretary and the cashier excepted; (d) compensation must be given for actual loss only, excluding all speculation; (e) the societies must form reinsurance federations for spreading and averaging risks.

The work of all officials is honorary, but the general meeting of members can allow the payment of certain sums to the secretary, cashier and others in remuneration of their services. The society never pays to the owner more than 80 per cent. of the value of the insured animal at the time of the accident, and the carcass is then appropriated by the society.

Mutual supervision, control and reinsurance are effected by provincial federations formed for these objects. A provincial federation cannot be formed by less than ten societies. Cattle insurance societies organised on these lines have made considerable progress since the War, and in 1932 there were in the province of Trento 108 societies, insuring 6,000 farms with nearly 16,800 animals. According to statistics published by the *Ente*, there were in 1931, 218 co-operative cattle insurance societies affiliated to it. The number of affiliated societies had risen in 1934 to 553, with 100,000 members.<sup>1</sup>

In Switzerland, livestock insurance is undertaken both by

<sup>1</sup> F. Cotta, *Agricultural Co-operation in Fascist Italy*, 1935.

local mutual societies, by mutual societies operating in a larger area and by private limited companies. The local societies receive considerable grants-in-aid from the Federal Government and from the cantons, but in spite of this support the societies show, since 1916, a steady decline of business, a position which can be partly explained by a national decrease in the livestock population. The local mutual insurance societies numbered in 1930, 2,246 with 149,266 members. Apart from these there are 18 cantonal, intercantonal and all Swiss insurance societies, with 206,317 members. All these societies had, in 1929, 877,996 insured animals and dealt with 30,503 claims, paying 6,006,031 frs. in indemnification, to which cantonal subsidies contributed 1,484,425 frs. and federal 1,102,725 frs.

Statistics relating to transactions of the limited liability or mutual companies operating on a national scale merely supply information on the annual change in the amount of capital insured and the amount of premiums and losses, which thus renders any comparison with the position of the local societies impossible.

An interesting kind of livestock insurance is found in Switzerland, where the Union of German Swiss Bee Friends has organised insurance against foul brood. The Union started this operation in 1908 and has since increased its membership to 18,000. The number of hives insured has increased from 90 to 206 thousands, which represents 90 per cent. of all hives. During the first 25 years of its operation the Union paid 151,539 frs. in claims.<sup>1</sup>

In Great Britain the Berkshire Society of Beekeepers operates a foul brood insurance scheme, providing compensation for members in the event of their colonies of bees, or combs, or both, having to be destroyed as a result of their becoming infected with foul brood. Compensation may be either by money payment or by replacement with equivalent colonies at the discretion of the Committee. No more than £7 10s. can be claimed by a member. In the

<sup>1</sup> Dr. Fr. Leuenberger, *Ein Vierteljahrhundert Faulbrutversicherung des V.D.S.B.*, 1908-32, Bern.

case of members whose subscriptions do not exceed 3s. 6d., the number of colonies covered by this insurance shall be six, reckoned as on April 1 each year. One additional hive shall be included as insured under the scheme for every penny paid by a member in excess of the subscription of 3s. 6d. The administration of the scheme is in the hands of a special insurance committee whose decision is final in all matters concerning compensation. All cases of disease must be reported to the committee within 7 days and the examination of bees is made by advisers appointed by the committee. The benefit of this scheme may be extended to non-members on application and payment at the rate of 2d. per colony.

The Scottish Beekeepers' Association established twelve years ago a special Insurance Committee which subscribes, under agreement with an established company, three schemes of insurance for beekeepers. Two of them operate in Scotland, England, Wales and Northern Ireland, and one only in Scotland. The first two are public liability and fire or theft insurance. The public liability policy indemnifies owners of bees against their liability to third parties for injury to persons or damage to property occasioned by bees from their insured apiary outside their apiary. All associates of the S.B.A. who pay 7s. 6d. per annum are covered for public liability as above up to 18 stocks, provided they sign a proper declaration. In the event of an injury or damage caused by the bees of the insured, he must give notice in writing within seven days from the date of such claim, specifying the nature of it. Under the second policy, an additional risk is covered by the Association; their liability shall not exceed £2 per stock (bees and combs), £1 for the hive, £1 for loss of honey and £10 in the aggregate under the claim. The third policy is issued only for Scotland and covers the first two, together with compensation for loss by foul brood. Total liability for all risks cannot exceed £20. The terms are 4d. per stock, minimum 3s. 6d.

There is also a scheme for collective insurance for beekeepers' associations, under which they can insure every



25 of their members for the first policy at a premium of 7s. 6d. and for the second policy at 12s. 6d. for the group.

In Bulgaria livestock insurance at first made very slow progress; nevertheless, the number of mutual livestock insurance companies increased from 3 in 1912 to 64 in 1924. Their membership has correspondingly increased from 35 to 1,641, and the number of insured animals from 9 to 4,605. Until 1925 only cattle were insured. In that year the insurance of horses was introduced. This class of insurance is also organised on co-operative lines, and its introduction has become all the more necessary since in recent years the price of horses has reached a very high level in Bulgaria.

In 1925, as a result of the new law facilitating livestock insurance, the number of mutual livestock insurance societies increased considerably. There were in existence at the end of September, 1925, 363 such societies, covering the whole of Bulgaria, with insured animals numbering 10,205 and a value exceeding 54 million leva. In 1925 the sum of 742,840 leva was paid as compensation in respect of 215 cattle and horses.

At present, livestock insurance in Bulgaria is organised on the basis of the law of December 26, 1910, as amended by the law of February 27, 1931. In accordance with this new legislation, a livestock mortality and accident insurance section of the Central Co-operative Bank of Bulgaria was established. Membership of the section is open to any livestock insurance association, constituted in accordance with the provisions of the law, provided it accepts the livestock insurance regulations prepared by the section and approved by the Ministry of Agriculture and Public Lands. The rules have to be accepted by the general meeting of founder members and confirmed by the section. The Livestock Insurance Section exercises a control over the activity of local associations and has the right to audit their accounts. These associations are exempt from the obligations imposed by law on other co-operative associations in respect of

registration, publication of their proceedings and reports of operations.

The insurance premium is fixed by the decision of the insurance section with the approval of the Ministry of Agriculture. Ten per cent. of the premium is allotted to the reserve fund of the section and the remainder is used to pay one-half of the compensation payments which fall upon the associations. If the proportion of payments falling on the associations cannot be covered by the annual premium, the deficit is considered as a first charge on the reserve funds of the associations, although not more than two-thirds of this fund may be utilised for the purpose. If, however, there is still a deficit, it becomes a first charge on the reserve fund of the section.

The State has granted the section a sum of 15 million leva as foundation capital. In accordance with the law the section receives from the State an annual subsidy with a minimum of 2,500,000 leva. If this subsidy is insufficient to cover that share of the compensation payments for which the section is responsible, it is supplemented by the State. At the beginning of 1931 the Livestock Section had re-insured 840 associations with 31,501 members for 345,958,240 leva. During 1930 premiums of 6,508,640 leva were received, and 4,513,640 leva were paid for claims in regard to 1,585 animals. The State subsidy amounted to 1,500,000 leva and grants from district councils to 55,662 leva; the sales of the hides of the animals brought in 920,020 leva.

Since 1935 livestock insurance has been operated by a branch of the Insurance Section of the Agricultural and Co-operative Bank in Bulgaria in collaboration with 1,958 mutual insurance associations which number 77,523 members. They have insured 152,120 animals for the sum of 359,410,000 leva. During the last year the section received in premiums 4,667,502 leva and has paid in claims for 3,093 animals 4,755,102 leva.

#### (e) AGRICULTURAL ACCIDENTS AND SICKNESS INSURANCE

Agricultural accidents and sickness insurance was established by farmers' organisations in Switzerland as early as

1863. Although not compulsory, agricultural insurance of accidents has become a necessity for farmers. Small cultivators need a personal guarantee against accidents of which they may become victims in the course of their agricultural labours. There is also equally a need for protecting the workers employed. In a word, farmers need to be insured against all accidents which may cause them damage, either personal or otherwise.

The Swiss Society of Agriculture, which subscribes agricultural accident insurance, was founded in 1863 as a result of the fusion of the Society of Swiss Agriculturists and the Swiss Central Society of Agriculture. It is concerned with the general interests of agriculture and is responsible for the distribution of federal subsidies. It is engaged in various activities, such as insurance against accidents, the experimental organisation of cultures, the importation of hogs, etc.

At the end of 1916 it consisted of 29 sections with a membership of 62,380. In 1916 it insured 4,403 men and 113 women, of whom 1,035 were employers, 444 members of their families and 3,037 employees and journeymen labourers. Altogether, 97,294 francs were paid in premiums and supplementary contributions for medical and pharmaceutical expenses.

In Holland also agricultural accidents and sickness insurance has made great progress. Since the Government's provisions for the insurance of industrial workers did not meet the needs of farm labourers, the larger agricultural associations in Holland took the initiative and formed an insurance institution free from State intervention. The Central Agricultural Insurance Society (The Centrale Landbouw-Onderlinge) combines the independent provincial associations, which themselves settle all small claims. These associations, in their turn, are divided into local sections. The Central Society acts as the common administrative centre and provides the compensation in the most serious cases.

The Central Agricultural Insurance Society has done excellent work and has thus proved that an insurance com-

pany completely decentralised and depending chiefly on the unpaid collaboration of its supporters, can well meet all the exigencies of this important class of insurance.

From the report of this society for 1919 it appears that the number of its members rose from 3,699 in 1910 to 15,000 in 1919; 21,845 workers had received compensation and 95 widows and other members of the family had been liberally assisted. All these claims were satisfied at the moderate cost of a 12½ florins premium for every 1,000 florins of wages paid.

Following the continued success of the Central Agricultural Insurance Society and other mutual insurance societies founded about 1910, the Government in 1922 decided to incorporate these societies in a new system of insurance against agricultural accidents under the condition that the rules of the societies were previously submitted for approval. An employer was obliged to insure his workmen in the State Insurance Fund only if he were not registered in one of these mutual societies. Consequently, the most interesting part of the Bill was that which regulated the work of mutual associations.

As these societies were working satisfactorily, their rights were restricted as little as possible. In general, the Government merely reserved to itself certain guarantees. Mutual societies are not allowed to make profits. Their members must be personally liable for the corporate debts up to one year after their resignation. A society which does not specify this condition must deposit in the State Fund a certain sum as a guarantee. Compensation may not be fixed at a lower level than that of the State Fund. Every employer must inform the central administration of the nature of his undertaking and of the accidents which have occurred. To safeguard against biased decisions, the societies are under an obligation to take half the number of their directors from among the agricultural labourers, who have to be nominated by the Minister from a list drawn up by workmen's societies. A mixed council of employers and workmen has to supervise the management of the societies.

If the same man is in turn a paid workman and an independent employer, his wages varying from week to week, the temporary compensation is calculated not according to the wages received by the insured person at the time of the accident, but according to the average weekly wages of the class to which he belongs.

The new regulations had a stimulating effect on the activities of the mutual insurance societies. On October 31, 1924, the membership of the Central Agricultural Insurance Society had grown to 33,939. The number of farmers who insured themselves against accidents in agricultural work was 2,555, and the number of members who had similarly insured their children had risen from 1,026 to 1,341. On October 31, 1924, the membership of the Horticultural Mutual Insurance Society (Tuinbouwonderlinge) was 6,300. At the end of 1924 the total amount of wages insured in the Accident Insurance branch of the Dutch Boerenbond, which includes 5 separate unions, was 26,485,000 florins. On May 1, 1925, 11,000,000 florins were insured in the Central Federation of Accident Insurance Societies known as "Het Platteland". At present, the Central Agricultural Mutual subscribes 36 per cent. of all accident insurance in agriculture, and the Horticultural Mutual 11 per cent., the State Insurance Bank 6½ per cent. and the rest (47 per cent.) is subscribed by other trade mutuals.

In Denmark, among other insurance societies, one calls for special mention, *viz.* "The Accident Insurance Society for Dairies and Agriculture" (Mejeriernes og Landbrugets Ulykkesforsikring). A Law of January 7, 1898, dealing with employers' liability in case of accidents to workmen engaged in factories using machinery, made owners of all co-operative and of most other dairies liable, and to meet the risk, a mutual society was formed in November of the same year by 712 co-operative dairy societies. By the following year almost all the co-operative dairy societies and many private, collective and estate dairies had joined. A law of May 27, 1908, imposed a similar liability on owners of agricultural holdings of a taxable value of not less than

£333, while for smaller holdings, the owner of which is in a scarcely better economic position than his labourer, it gave facilities for both owner and labourer to insure themselves voluntarily against accidents occurring in the course of their agricultural work, the State paying half of the insurance premium. The above-named society obtained the sanction of the Minister of the Interior to widen the scope of its activity in effecting insurances under this law. It also formed a branch for private insurance against accidents. In 1916 the society had about 158,000 members, of which about 1,300 were dairy societies or owners of private dairies, 51,500 compulsorily insured, and 14,000 voluntarily insured agricultural holdings, and about 90,000 private persons. The general meeting, the highest authority of the society, consists of representatives, one for each of the 24 sections into which the country is divided, for the purpose of administration. Members are grouped around the dairies in their district. Meetings of all members of the insurance society, living in the various dairy districts, are held at the dairies every third year, immediately after the annual general meetings of the co-operative dairy societies. At these meetings representatives are elected for the dairy districts, one for each. These representatives, together with delegates from each of the dairies, meet every three years within each of the 24 sections, and elect the representatives to the general meeting, one for each division. The general meeting elects the board of management, consisting of five members. The board appoints the managing directors.

In 1916 compensation was paid to the total amount of £30,000. In 1917 the society was authorised by the Minister of the Interior to cover risks under the law of July 6, 1916, consolidating previous enactments relating to accident insurance.

At the end of 1935, the society subscribed various other kinds of insurance and issued policies as follows :—

Accident Insurance . . . . .	236,000
Third Party Indemnity Insurance . . . . .	102,000
Burglary Insurance . . . . .	1,400
Motor-Car Risks . . . . .	18,000

The society occupies one of the first places in Denmark, and its rates are lower than those of the ordinary companies. Surpluses are not distributed among members, but are put to reserve. Insurance reserves amount to 2,807,044 Kr. and other reserves to 3,089,330 Kr. They are invested in State and bank securities. The management of the society now consists of committee and board of directors. The committee is composed of 24 representatives elected by 1,600 trusted agents of the society. These agents are elected by the members. Management expenses amount to 21.4 per cent. of the premiums.

Another co-operative accident insurance society in Denmark is of interest. It is The Farmers' Parish Union Accident Insurance Society (Sogneraadsforeningernes Ulykkesforsikring for Landbrugere). This society was established in 1909 following the introduction of legislation for compulsory accident insurance. The society also subscribes voluntary accident insurance for members' families. The number of policies in force is 14,000; the policies usually cover the family of the farmer and his labourers; 90 per cent. of the members are farmers and they are spread all over the country.

The society does not pay bonuses, but uses its surpluses to form reserves, which reached 300,000 Kr. in 1935, and to reduce premiums. During the last few years, over 50,000 Kr. were used for this purpose. The reserves are placed in co-operative and savings banks. The society does not employ agents, but has local representatives chosen by the members in different parishes. The management committee consists of five members, chosen by the general meeting; the latter is formed by delegates from every county, elected by the representatives of the parishes. Management expenses absorb 18 per cent. of premiums.

Mutual associations for insurance against accidents to farm workers also exist in Italy. Since 1904 there has been a law in Italy requiring employers of industrial labour to insure their labourers against accidents, but such insurance did not apply to agricultural workers in the pursuit of their work—except that the Act required the insurance

of men engaged as foresters or handling farm machinery. The mutual insurance associations, therefore, subscribed voluntary insurance of the agricultural population.

Mutual insurance societies against accidents to farm workers in Turin, Vercelli, Milan, Bologna, Rome and Florence cover insurance against death and permanent disablement by accident. The society at Vercelli has extended its policies to cover temporary disability. The premium charged by these insurance societies is calculated at so much per hectare of land under cultivation. The mutual society of Vercelli charges 5 frs. per 1,000 frs. insured capital, and the premiums are calculated not on the basis of the number of labourers employed, but in relation to the area cultivated, the charge varying from 50 to 70 centimes per hectare of land, in accordance with the nature of the crops raised.

In France, too, a number of mutual societies for insuring workmen against accidents were created by the farmers' syndicates for the benefit of their members. La Sartoise, established by the farmers' syndicate of Arthe, is one of the most advanced. It guarantees to its members a daily indemnity in case of temporary injury, and indemnity in a lump sum for permanent injury or in case of death. The society also provides for medical aid and prescription. The premiums are payable in advance and differ with the nature of the farm operations. They are regulated in accordance with the number of hectares cultivated. The profits of the society are divided into two equal parts: one goes to the reserve fund, the other is distributed among the members proportionately to the amount of their premiums. Since the establishment of the society on March 1, 1905, La Sartoise has realised annual profits equal to 30 to 40 per cent. of the paid-up premiums, in consequence of which the yearly premiums payable by the people insured have been reduced by 15 per cent. to 20 per cent. La Sartoise is managed by the council composed of the officers of the Syndicate and of nine members from among the insured.

Agricultural accident insurance is covered in France by



two systems of insurance societies grouped round the Central and National Offices. The first, the Central Office for Accident Insurance (La Caisse Centrale d'Assurances Mutuelles Agricoles Risque Accidents), had at the beginning of 1935, 26 regional and 12,210 local societies affiliated to it. Policies issued numbered 582,393 and salaries insured, 1,694 million frs., with 55 million frs. in premiums paid during the year 1934. The second system of accident insurance, headed by the National Office of Accident Insurance (Caisse Nationale Accidents), had at the beginning of 1935, 36 regional and 3,000 local societies affiliated to it, with insured salaries amounting to 500 million frs. and over 250,000 policies issued. The National Office received during the year 1934, 13,800,000 frs. in premiums and paid 7 million frs. in compensation for claims. The reserves of the whole system for unsettled claims amounted to 12,600,000 frs.

In Bulgaria the accident branch of the insurance section of the Agricultural and Co-operative Bank of Bulgaria has issued policies for 2,175,000,000 leva for the last year (up to October 15, 1935) and has received in premiums 2,537,500 leva.

#### (f) MOTOR-CAR INSURANCE

The motor-car mutual insurance societies are very popular among the rural population in the U.S.A., and it will be of interest to give some information about the operations of a few representative societies. The first of them, the State Farm Mutual Auto Insurance Company, was organised in 1922 in Bloomington, Illinois. During thirteen years this company has grown to such an extent that it operates now in 36 states and became the largest mutual automobile insurance company, which actually carries more automobile insurance policies than any other company in the country to-day. This rapid growth has been largely due to the fact that its state agencies are held for the most part by the farmers' organisations, State Farm Bureaux, which, taking the state-wide agencies on a commission basis, are able to back their insurance programme by their entire organisational

strength and to build up a large agency in each state. These Farm Bureaux, acting as state agents, have been able to bring efficient and reasonably priced automobile insurance to many thousands of farmers; at the same time they have a considerable income, which has been useful in promoting their organisation work. In 1935 there were, for instance, in Michigan some 33,000 policies on automobiles actually in force and also over \$4 million of life insurance, which had been placed among farmers largely through the State Farm Bureau of Michigan.

The main difference between the State Farm Mutual Auto Insurance Co. operations and those of most other companies, is that it collects a "membership" or what some people would call a "policy fee", which serves as an acquisition cost once for all. So no commission is paid to the agents thereafter. A premium is then fixed, which runs along for six months, at which time the policy-holder is debited for the amount shown to be necessary to cover the kind of risk he has insured. This builds the premium up to par again and he may go on again for the next six months. The acquisition cost is thus paid only once, and the premium is paid once and restored to its full value at the end of each six months. If the policy-holder changes cars, the agent charges him a dollar for transfer fee and the credits he had with the old policy are transferred to the new car, and so he goes on.

The State Farm Mutual Auto Insurance Company is, however, a strictly limited liability company, and also a strictly Legal Reserve Company. The policy-holder's liability is limited to the losses of the period during which he was insured, that is, for six months at a time; it is further limited to an additional amount equal to the original premium.<sup>1</sup> The main points stressed by the company in its

<sup>1</sup> The company explains the character of its operations in the following circular to members: "Our company is a mutual company, and the cost of insurance to policy-holders is dependent upon its losses. Careful driving will reduce the cost of insurance. The Company does not accept policy-holders unless they have a reputation for honesty, industry and integrity and does not desire to

appeal to the public are : The company is a Mutual Legal Reserve Company owned by the policy-holders. It is founded without promotion expenses and is operated upon a non-profit-making, co-operative, low-cost plan of insurance. Since its establishment policy-holders' savings in cost of insurance approximate 35 millions. Contracts are written in plain language designed to make them understood by members. Fifty-four claims offices are maintained. The company has paid during the twelve years of its existence 466,964 claims. It subscribes insurance at low cost, because its expenses are low, its policy-holders are selected risks, subscribed by carefully selected agents, and its investments and reserves are efficiently administered. As a result of such organisation and methods of operation the company claims that, at the beginning of 1935, it had more than 1 million policies in force.

The growth of the State Farm Mutual Automobile Insurance Company is remarkable. The income of the company has increased from \$29,222 in 1922 to \$9,532,184 in 1935. The assets of the company have grown from \$27,444 in 1922 to \$8,803,304 in 1934, with a corresponding increase of reserves from \$19,686 to \$7,137,647 and of surpluses from \$7,758 to \$1,665,657. The money is invested mainly in United States Government Bonds (\$2,841,247), in municipal, public utilities, railroads and other bonds (\$3,984,572) and in real estate (\$1,050,731); the investments are limited to non-speculative securities; full reserves are maintained and loans are forbidden to officers or directors.

insure persons who cannot afford to own or operate an automobile. By confining the policy-holders to this class of person, the cost of insurance can be kept low, as the Company will not be called upon to pay fraudulent and dishonest claims.

"Should you know of anyone who has become a policy-holder of the Company who is not a careful driver or who for other reasons should not have been insured, it is your duty to advise the Home Office at once so that an investigation can be made and, if necessary, the policy cancelled."

In 1929 the State Farm Life Insurance Company was organised and had in 1935 over \$30,000,000 life insurance in force. In 1935 the State Farm Fire Insurance Company was formed. All the shares of these two companies are owned by the S.F.M.A.I.C.

Another company, the Farm Bureau Mutual Automobile Insurance Co., Columbus, Ohio, was started in 1926 with a capital of \$10,000 secured from membership funds. It is now one of the ten largest mutual casualty companies in the United States and the only one of the ten less than ten years old.<sup>1</sup> Policy-holders number 160,567, and the company is now operating in eight states. It has accumulated a surplus and contingency reserve of \$827,397. In addition to this a special commission was paid to sponsoring co-operative organisations which introduced new members at the rate of approximately \$2 for each new full coverage policy ; \$1 is paid per policy when it is renewed for the next year. These sums have amounted to over \$500,000 since the company was started, and this has all been done on rates that show a saving of between 40 per cent. and 50 per cent. of normal casualty rates. The sums received by the State co-operative organisations have been used for educational purposes and to furnish capital for other co-operative enterprises.

The company has also invested part of its assets in a Co-operative Fire Insurance Company, and it is proposed to start in 1936 a life insurance company. It undertakes

<sup>1</sup> The secretary of the company writes: "One of my prime reasons for recommending our entry into the insurance field was in recognition of the need of having services in which all farmers and rural people could unite, and just recently we have taken action to extend this insurance to co-operative groups in cities. I am sure you appreciate that in this country some of our farm folks produce grain, while others buy it. Therefore, there is some conflict in interest between such groups, but all want insurance, and as consumers it brings us together, irrespective of our other conflicting interests. Further than that, we have long recognised that insurance companies constitute a secondary financing system of the country, and it is the control of the reserves of our large insurance companies, we believe, that has at least contributed to the great concentration of wealth in so few hands.

"Furthermore, many insurance companies have furnished capital to many agencies competing with co-operatives. For instance, the stock of some of our biggest privately owned dairy distributors is in the portfolios of our insurance companies. So we are appealing to our folks to join in the complete co-operative programme, and we find insurance has been a most significant part of this programme."

also to issue fidelity bonds for co-operative officers and managers. It is proposed to take care of general liability insurance for co-operative units, including particularly gasoline and oil stations. In the nine years of its existence the subscribed business has grown from \$114,100 in 1926 to \$3,500,000 in 1934. The total assets of the company at the beginning of 1935 amounted to \$3,779,979. They are invested mainly in Federal, State and bank securities (\$2,539,426), and in real estate (\$346,723). The liabilities of the company are composed as follows: guarantee deposit fund, \$2,082,348; reserve for unpaid losses, \$773,171; reserve for contingencies, \$277,397, and a surplus of \$550,000. During 1934, 23,750 claims were filed and \$903,737 were paid out in settlement.

#### (g) INSURANCE AGAINST AGRICULTURAL STRIKES

A special form of insurance against agricultural strikes was in existence in Germany. The Agricultural Mutual Insurance Society (*Landwirtschaftliche Versicherungsgesellschaft auf Gegenseitigkeit*) of Greifswald has been in existence for over eighty years, and carried on five classes of insurance against hail, fire, deterioration of buildings through time, theft and damage by riots. In June, 1920, a sixth branch was added: insurance against agricultural strikes. The new section was to be managed in common with the others, but its assets and its accounts were to be kept separately. It was also to have its own reserve funds. The establishment of this branch and the conditions of insurance against strikes were approved by the authorities. In order that the new section might from the beginning be placed on a firm basis, the old sections supplied it with a reserve fund of 300,000 marks. It was to begin business as soon as 1,000 persons, at least, desired insurance.

Although the society is authorised to work throughout Germany, it generally confined itself, in fact, to the plain of Northern Germany—Pomerania, Brandenburg and Mecklenburg—where large estates and the cultivation of cereals predominate. Individual cases in this branch of insurance are regulated by the president and officers, and exceptions

are generally decided by the Supervisory Council. A decision, whether on the question of insurance or on that of compensation for damages, must be exclusively based on the wages paid. Taking into account the fact that an agricultural strike cannot, as a rule, last long, two-twelfths of the annual amount of the wages are taken as the basis of the amount of the insurance. When it is desired to have insurance cover either for especially dangerous periods, such as the sowing or harvesting season, or for an acute form of strike (for example, the abandonment of urgent work in connection with the care of livestock), another twelfth is added. The policy-holder must declare the annual amount of wages paid for each farm in the previous year (beginning from July 1), account being taken of both money payments and payments in kind, which are estimated at their cash value. By dividing the total wages for the year by the total number of working days, the average daily amount of wages is obtained. This only is taken into account in the insurance, leaving out the nature and description of the occupation of individual labourers. The policy-holder may have either a uniform cover for all periods of the year or a fluctuating cover varying with the magnitude of the contingent loss resulting from strikes at various seasons. A policy-holder is thus allowed, if he prefers, to indicate certain periods for which he may require a higher compensation. There can be no insurance against a strike unless it lasts for two consecutive days and involves at least one-fourth of the labourers on the farm. The premiums are fixed in proportion to the whole sum required to cover compensation, and must be paid in one lump sum for each period of insurance. There are to be no special payments of any kind. The collection of the premiums is deferred and the settlement takes place for the whole financial year from October 1 to September 30, which constitutes the insurance period. The society is released from the obligation to pay compensation if the policy-holder has deliberately provoked the strike or if the strike was brought about through his own fault.

## CHAPTER IX

### CO-OPERATIVE EMPLOYEES' INSURANCE SOCIETIES

THE ideal of the Rochdale Pioneers of employing all members of the co-operative societies in their own co-operative enterprise is very far from being fulfilled. There is, however, a great army, nearly two millions strong, of co-operative employees all over the world, Great Britain heading the list with well over a quarter of a million.

The number of co-operative employees all over the world in 1929, as estimated by the statistics of the National Organisations affiliated to the International Co-operative Alliance, was 1,104,360. But this figure does not include the co-operative employees of countries not affiliated to the International Co-operative Alliance, and especially those employed by agricultural co-operative organisations in the U.S.A., Canada, Australia, etc. It would, therefore, not be far from the truth to estimate the number of co-operative employees all over the world at nearly 2 millions.

In many countries where co-operative employees are not protected by State insurance, they have started very early to organise their own insurance organisations. In countries where general co-operative insurance organisations have already been in operation, there was no need for a special insurance organisation for co-operative employees (*e.g.* for Great Britain), but in many others, where such organisations were established at a comparatively late date, they were preceded by the co-operative employees' insurance organisations. In these countries, Germany, Switzerland, Denmark and Finland, the employees' societies continued their existence after the establishment of general co-operative insurance organisations.

It is, however, amply evident that there is no reason for the formation of special insurance societies for co-operative employees, when and where it is possible to form

general co-operative insurance societies. Co-operative employees should be the first members to join such societies and serve as pioneers of co-operative insurance in general. Special societies of co-operative employees should be formed only if there is no other alternative, as their formation robs the future co-operative insurance society of its best members. An investigation of the organisation and business methods of co-operative insurance societies of this group will confirm this general presumption.

(a) *Agricultural*

Special co-operative societies for the insurance of the employees of agricultural co-operative organisations operate in Denmark and Finland. Apart from these, there are in operation in India and Belgium special schemes for the same purpose.

The Co-operative Insurance Fund (Andels Pensionsforeningen) was organised in Denmark in September, 1919, by the Danish co-operative societies and their employees. Its aim is to provide the co-operative employees with old age pensions from the age of 65 for men and 60 for women ; pensions for invalidity by accident or sickness before the above-mentioned ages ; and pensions for widows of employees. The membership comprises the majority of the co-operative societies and enterprises, including all bacon factories, all co-operative societies for the purchase of fodder, fertilisers, cement and dairy machines, and all manufacturing agricultural co-operative societies, etc.

The insurances are effected on a collective basis by agreement with the individual co-operative societies, but a separate policy is issued for each employee. At the end of 1935, 2,427 policies were in force, covering 2,478,880 Kr. of annual pensions. The society also reinsures 1,480 policies with annual pensions of 61,170 Kr. for other societies. The rates are as a rule lower than those of other pension insurance societies, especially the rates for women employees. Surpluses are used in the interests of the members, bonuses being transferred to special funds, which are used for increase of pensions, when they become effective. The surplus for



the year 1934 amounted to 93,000 Kr. The number of lapsed policies is very small ; in 1935 it was only 2.2 per cent. of all policies in force at the beginning of the year. The society deals directly with co-operative insurance societies and has no agents. The cost of administration during 1932-33 amounted to 11.8 per cent. of the total yearly premium income.

The general meeting of the society is composed of the delegates of insured members. The general meeting elects 9 members of the management committee. Six other members are delegated by the co-operative societies, with whom agreements about pension insurances are concluded. The board of directors is composed of 5 members, of whom 3 represent the insured employees and 2 the co-operative societies.

The total funds of the society amounted on January 1, 1934, to 7,081,746 Kr. There is a guarantee capital of 750,000 Kr., of which only 75,000 Kr., or 10 per cent., is paid up. Insurance funds amount to 5,610,496 Kr. and other reserves to 602,647 Kr. On the other hand, premium re-insurance reserves represent 2,741,124 Kr. and various investments 3,475,973 Kr., of which 3,371,166 Kr. were invested in legally approved securities and the rest in other securities. During 1934, 421,436 Kr. were received in premiums and 229,605 Kr. were paid for reinsurance ; during 1934 insurance funds have increased to 6,007,055 Kr. and other reserves to 800,182 Kr.

The Co-operative Dairy Societies in Finland have endeavoured to insure their employees in the same manner as the consumers' co-operative societies. An attempt to form a special insurance society for this purpose was made in 1914, but failed because the interested organisations were unable to bring together the necessary capital. In 1920<sup>1</sup> the Central Agricultural Organisation, " Valio ", subscribed the necessary sum for the foundation of such an insurance office, which operates on the same principles as the insurance offices of the consumers' societies, under the name of the

<sup>1</sup> P. Molin, *Le Mouvement Coopératif en Finlande*, p. 163.

Mutual Insurance Society of the Co-operative Dairy Associations (Meijerivaen Keskinainen Elakevakuutusyhtio). The society began operations in 1921 with the object of providing for the employees of the co-operative dairies and other societies a pension, which has to be paid to men at the age of fifty-eight and to women at fifty-five.

If an insured person loses, as a result of illness, over 50 per cent. of his ability to work, he gets a disability pension, which is equal to the old age pension. If an insured married man dies before he reaches the pensionable age, his pension is paid out to his dependants: one-half of the man's old age pension is paid to the widow and one-tenth to each child until the age of eighteen. Apart from this, 3,000 F.Mk. are paid as burial benefit for each insured person in case of death.

The members are also insured against illness and accident. In case of illness lasting over fourteen days, three-quarters of the average day salary of the insured is paid to him for the whole period of disability. In regard to accident insurance, the membership is covered in accordance with the provisions of the law.

By the beginning of 1936, the society had issued 216 policies covering 3,190 members. The premiums of the company are a little lower than those of the private companies in regard to accident insurance. As regards pension insurance, the society is one of the few insurance institutions subscribing this kind of insurance. The initial fund of the society amounted to 1 million F.Mk. and various reserve and other funds to 14,844,354 F.Mk. These funds were invested in mortgages and government securities.

The Société d'Assurance du Boerenbond Belge has subscribed pension and life insurance during 1934 for 3,607 employees. Premium income of this operation has brought in 2,589,908 frs.

In some countries, more especially in India, a kind of mutual insurance organisation has been established for co-operative employees by co-operative banks and credit societies. Several co-operative credit societies and banks,

especially those started by employees in offices in Bombay and Bengal, have adopted a kind of provident plan for paying certain amounts to the members on their retirement, or to their relatives in case of death. Members who wish to take advantage of such benefits have to pay certain fixed sums monthly or on call, on retirement or death of members. The system cannot be said to be sound, unless it is based on actuarial tables, for under the prevailing plan there is no certainty as to the premium to be paid and the benefit to be received. Section 41 of the Bombay Co-operative Societies Act enables societies registered under it to form a provident fund and to contribute to it some portion of net profits.

(b) *Consumers'*

I. HISTORY.

Co-operative officials and workers employed by the co-operative consumers' societies in Germany, Switzerland and Finland have established their own pension offices or insurance societies. The oldest of them, the Pension Office of the Central Union of the German Consumers' Societies (Hamburg), was formed in June, 1905, by the Central Union of the German Consumers' Societies as a Mutual Insurance Society (*Versicherungsverein auf Gegenseitigkeit*). Its aim was to insure the employees and workers of the German consumers' societies affiliated to the Central Union and members of the pension office against sickness, old age and death.

The membership of the pension office consists of collective and individual members : it is open to registered co-operative societies of all kinds which are members of the Central Union and to individuals aged 25-45, employed by these societies, provided that they can present a satisfactory health certificate. Collective members, belonging to the pension office, undertake to engage only such persons as can be insured in accordance with the Articles of Association. Societies, as well as individuals, are enrolled by completing and signing a membership application form which has to be approved by the Board of Directors.

The insurance office has no special organisation and conducts its business through other co-operative bodies, especially through the Publishing Society of German Consumers' Societies Ltd. ; premiums are received by the local co-operative societies which also pay pensions for the account of the insurance office ; and banking operations pass through the Banking Department of the German C.W.S.

The insurance office of the Swiss consumers' societies is a co-operative society, formed in 1909, with the aim of subscribing insurance for its members against sickness and death. The business has been conducted on a non-profit-making basis. The members are employees of the Swiss Consumers' Co-operative Wholesale Society, local co-operative societies and of other co-operative organisations, members of the Union. The extension of the circle of insurable persons as well as of the field of activities and risks can be decided upon by the general meeting of the institution.

Members are divided into two categories : (a) co-operative societies joining as collective members, and (b) individual employees of co-operative societies. The latter are admitted individually either because the society employing them has not yet joined the insurance office, or because it does not insure its employees against certain risks which are insurable by the insurance office. A co-operative society joining the insurance office must bring in, as a rule, all its employees who have not passed the forty years age limit. It also has the right to insure people above that age on payment of correspondingly higher premiums under special rates. When collective members have already insured their employees against invalidity and desire to widen the insurance so as to include death benefits, they must extend this insurance to all their men employees at least, while for women employees this supplementary insurance is only voluntary.

The application for a benefit must be accompanied in the case of each person by a medical certificate. Up to 1920 it was necessary to present a medical certificate for all persons of pensionable age in order to get the sickness insurance. This has not been enforced since 1920 and now

no medical certificates are required for men who are over sixty and women who are over fifty-five: claimants for insurance benefit must themselves prove that they are unable to work.

In order to be able to fulfil its statutory obligations, the insurance office receives from its member-societies regular and periodical payments. Apart from that, the office may claim admission fees and supplementary payments in accordance with the fluctuation of wages. Premiums are fixed in accordance with special tables which form an integral part of the Articles of Association. If these tables require any amendments, they are prepared by the Board; but they become valid only if and when they are sanctioned by the general meeting. The premium, admission fee, and supplementary payments in case of an increase in the insurance sum, are charged in accordance with the age of the insured and in proportion to the assured's wages which must be indicated when the policy is fixed. When a collective or individual member ceases insurance with the insurance office he is entitled to a refund of a certain proportion of his payments. If the collective societies withdraw or are excluded from the insurance office, employees insured by the office have the right by continuing payment to maintain their insurance as individuals. In case of withdrawal, the collective members return to the insurance office all the admission papers of their employees.

Employees insured with member-societies that discontinue insurance retain the right to continue the insurance individually. They have to make a special declaration to this effect within one month. If an insured person loses his position in the co-operative society, the society can claim the repayment of 60 per cent. of the paid-up premiums. If an insured employee obtains employment with another member-society, the former society gets 60 per cent. of the premiums paid out, and that part of the refund belonging to the insured is transferred to the co-operative society in which he has taken up employment. This society has to repay to the insurance office the total sum paid by the previous insured society.

In Finland the consumers' co-operative societies, which belong to the "neutral" group, established in 1919 an insurance office, "Elonvara", for insurance of the employees of the co-operative wholesale society (S.O.K.) and of its members. In addition the S.O.K. and its affiliated consumers' societies also established in 1919 for their workers a special insurance office, "Työäventurvä", which was re-organised in 1925 under the name "Oma". As the workers have not such a constant employment as the officials, a special condition was imposed that the "Oma" can insure only such workers who have been employed by the same co-operative organisation for not less than one year.

## 2. ORGANISATION

The organisation of the institutions differs considerably in various countries. The insurance office in Germany is managed by the general meeting, the Council and the Board of Directors. At the general meeting equal representation is given to the collective and individual members. The societies elect their representatives for each Auditing Union separately in proportion to the number of member-societies, as follows: 1-10 societies elect one representative, 11-50 elect two, 51-100 three, 101-200 four, 201-400 five, over 400 elect six representatives. The number of individual representatives is fixed before each election. The members are classified in the following groups: staff, branch managers, clerks, industrial employees, transport, warehouses, stores, printing and unskilled workers. Each separate group elects one representative for every 500 members. The Council is composed of ten members elected at the general meeting, five of whom are elected by the representatives of the co-operative societies and five by the representatives of the individual members. The Board of Directors consists of two members elected by the general meeting and an additional member representing the Board of the Central Union.

The organisation of the insurance office in Switzerland consists of a general meeting, a Supervisory Council and a Board of Directors. At the general meeting each society

has as many votes as members. But the collective members may not exercise more than one-third of the total votes present, even if this necessitates the reduction of the maximum number of their votes. In the general meeting on April 8, 1934, 100 delegates participated representing 3,491 policy-holders. The Council is elected by the ordinary general meeting for a period of three years. It is the organ of supervision and is composed of fifteen members. The members of the Supervisory Council have voting rights in all matters except those specifically dealt with by the general meeting. Members of the Societies' Council get a remuneration and travelling expenses for each attendance at a meeting, the sum being fixed by the Council. The general ordinary meeting is called by the Supervisory Council.

Premiums and cover differ considerably in various countries. In Germany annual payments represent 9 per cent. of the wages of the insured employees. They are contributed in equal proportions by the societies and the insured employees. The maximum of insured wages is 6,000 Mk. The disablement or old-age pension is paid in such a way that after five years an insured person can receive 20 per cent. of his wages and an increment of 2 per cent. each succeeding year, so that after ten years of insurance a member can get 30 per cent. After ten years, 1 per cent. is added for each consecutive year, with the maximum of 60 per cent. after forty years of insurance. In Switzerland the insured person gets from the insurance office a pension in case of invalidity, and a compensation to survivors in case of death. The amount of pension is calculated on the basis of the most recent salary. It is proportionate to the number of years for which payments have been made. A new form of insurance was started in 1913—a branch for family insurance. The disablement pension becomes operative after five years. It amounts under schedule I to 20 per cent., under schedule II to 30 per cent., and under schedule III to 40 per cent. of the yearly salary of the insured, and it is augmented annually by 1 per cent. The family pension is paid in accordance with the wages of the deceased and does not depend on years of service. The widows'

pension is 30 per cent. of the last wages. Apart from this every child up to eighteen has the right of 5 per cent. of the insured wages, but the total sum of the orphans' pension cannot exceed 25 per cent. of the insured wages, *e.g.* the combined pension for widows and orphans is a maximum of 55 per cent. Where there is no widow or orphan under the age of eighteen left, but there are needy old dependent parents or brothers and sisters under the age of eighteen, then they receive annually a maximum of 15 per cent. of wages if the dead man has helped his parents, sisters, brothers or children. The Finnish society, "Elonvara", is divided into two sections: the first subscribes insurance in case of illness, the second old age, disablement, widows' and funeral expenses insurance. In cases of illness, the insured receives three-quarters of his average salary for the previous year. The men employees receive at the age of sixty-two and the women at fifty-seven a pension which amounts to three-quarters of their average salary. The widows receive 50 per cent. and the orphans 10 per cent. of the salary of the deceased. Half of the premiums is paid by the co-operative societies and half by the employees.

### 3. RESULTS

The Pension Office in Germany has developed satisfactorily. At the end of 1931 the number of societies' members of the institution was 365 with an average of 94 insured employees per society. The total number of insured employees was 34,144, of whom 60.97 per cent. were men and 39.03 women; 263 employees out of 34,000 remained insured on their own after they had left the service of their societies. The occupational distribution of the members is indicated by the following table:

	<i>Number.</i>	<i>Per cent.</i>
(a) Managerial staff . . . . .	1,478	4.4
(b) Branch managers . . . . .	6,407	18.7
(c) Clerks . . . . .	10,913	32.0
(d) Industrial employees . . . . .	7,007	20.5
(e) Transport, printing and unskilled employees	8,339	24.4
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	34,144	100.0
	<hr style="width: 100%; border: 0.5px solid black;"/>	



Fifty-five per cent. of the insured are clerical employees and 45 per cent. industrial employees. The average age of the members insured in 1931 was 26 years, the average for men being 30 and for women 23.8. The amount of pensions paid by the insurance office for the years 1931 and 1934 can be seen from the following table:

Sickness Benefits.	1931.		1934.	
	Number.	Amount in Mk.	Number.	Amount in Mk.
Sickness benefit :				
Men . . . . .	1,467	1,904,964	2,866	3,708,408
Women . . . . .	195	122,640	340	216,744
Widows . . . . .	927	441,576	1,154	593,616
Orphans . . . . .	187	20,027	201	22,843
Old-age pension :				
Men . . . . .	435	557,856	469	633,396
Women . . . . .	21	12,516	22	13,212
	3,234	3,059,479	5,052	5,188,219

The average monthly sickness pension amounts to 102 Mk. The only branch of the German Pension Office business which has caused grave concern is that of sickness insurance. The number of persons receiving insurance increased continually and disproportionately. They numbered 231 in 1929, 307 in 1930, 589 in 1931. It was evident that societies were trying, under the pressure of the depression, to dispose of many of the older employees who would continue in service in better times. The insurance office has had to proceed very cautiously when approving new pension payments. Under the new conditions in Germany the activities of the pension office considerably contracted, and the number of insured members fell at the beginning of 1934 to 24,687 members (15,306 men and 9,381 women). The assets of the insurance office amounted at the beginning of 1935 to 50,075,673 Mk. which were invested in mortgages—36,042,953 Mk., in securities—8,936,084 Mk. and in bank deposits—3,082,575 Mk.

The development of the activities of the insurance office of Swiss Distributive Societies has been quite satisfactory. At the end of 1934, the institution had 85 corporative members with 4,283 persons insured against invalidity for 19,153,698 frs. and 52 corporative members with 2,239 persons insured against death, for 12,928,836 frs. There were also a number of insured individual members—70 against invalidity and 48 against death. Out of 597 pensioned people, 375 were men and 222 women. The Swiss Institution may be proud of the results of its activities: it has paid to the insured members 13,475,841 frs. in benefits and pensions, and its total overhead expenses for this period amounted to only 711,446 frs.<sup>1</sup> or less than 2 per cent. (1.93 per cent.) of 36,828,363 frs. premiums and admission fees.

The financial position of the insurance office in Switzerland is excellent. The total resources amounted on January 1, 1935, to 45,233,945 frs., of which 10,608,200 frs. were invested in securities and 34,485,069 frs. in deposits with the Central Co-operative Bank. The total premiums paid for 1934 amounted to 1,862,344 frs.; interest on capital yielding 1,796,149 frs. The interest on capital forms an important part of the income of the Institution, and therefore the lowering of the rate of interest considerably affected the total income. In order to increase the rate of interest on the capital, the Board decided to convert the 1,490,000 frs. deposited with the Central Co-operative Bank into shares of the bank. This conversion does not increase the risk, since the Central Co-operative Bank is connected with the Swiss Co-operative Union in the same way as the insurance office. By depositing 80 per cent. of its funds with the Co-operative Bank the insurance office renders great service to the co-operative movement and fulfils the prophecies of the pioneers of co-operative insurance.

The "Elonvara" in Finland has also made considerable progress: in 1920 the reserves of "Elonvara" (Finland) amounted to F.Mk. 1,972,614 and by 1935 they had in-

<sup>1</sup> Apart from this sum the Union of the Swiss Consumers' Societies has covered 208,919 frs. of expenses incurred prior to 1922.

creased to F.Mk. 41,543,461, while the premiums had increased to F.Mk. 4,001,223. The number of policies issued has increased from 914 (in 1920) to 2,466 (1934); 50 per cent. of the Swedish-speaking co-operative societies and 77 per cent. of the Finnish societies were affiliated to the "Elonvara" in 1935, and 370 claims, totalling F.Mk. 891,967, were paid by it in respect of sickness, death, disablement benefits and old-age and widows' pensions.<sup>1</sup>

The "Oma"<sup>2</sup> (Finland) started operations in 1919, and by 1923 the number of policies issued had grown to 7,277 compulsory accident policies and 1,602 sickness policies. "Oma" paid out in 1934 F.Mk. 131,390 in respect of accident claims, F.Mk. 84,222 in death benefits and invalidity pensions and F.Mk. 90,807 in respect of sickness claims.<sup>3</sup> The "Elonvara" has taken over in 1935 the sickness and burial insurance operations of the "Oma" Society and the "Vara" its accident insurance work, and the "Oma" society has ceased operation.

<sup>1</sup> *R. of I.C.*, 1935, No. 4, p. 148.

<sup>2</sup> P. Molin, *op. cit.*, p. 162.

<sup>3</sup> *R. of I.C.*, 1935, No. 4, p. 148.

## CHAPTER X

### ORGANISATION

#### I. INSURANCE UNITS

THE problem of organisation plays a prominent part in the success or failure of co-operative insurance enterprise. It can be solved in the right way only when co-operative insurance is so organised as to be appropriate to the particular units it seeks to serve. These units consist of individuals, households, groups of individuals and collective organisations. The most numerous group served by insurance is that of individual policy-holders, each of whom is covered separately under his own policy. In fire insurance, and especially in many branches of rural insurance, the policy is a household policy which is issued for the household as a living and producing unit.

Next comes group insurance, which covers jointly by a group policy many persons connected in a group by the fact of their belonging to the same club, factory or other institution. It is widely operated in the U.S.A. where the establishment of group insurance by employers and their associations was a great stimulus to the development of working-class insurance organisation. Group insurance was inaugurated in the U.S.A. at the beginning of 1912, and has been subscribed by the insurance companies for employers on behalf of their workers. The growth of group insurance was extremely rapid; the first policy was issued in 1912, and it is estimated that by December, 1926, group life insurance had embraced in the U.S.A. 4,700,000 wage-earners with an aggregate amount of insurance in force amounting to \$5,600,000,000.<sup>1</sup> It is interesting to note

<sup>1</sup> W. F. Graham, "Group Life Insurance," in *Annals of American Academy of Political and Social Science*, 1927, March, Vol. 130, No. 219, p. 30. The chief advantages claimed for group insurance were formulated as follows: (1) It protected large groups of workers who

that in 1931 the number of insured had increased to 6,500,000 and the total sum assured to over \$10,000,000,000. The number of policies issued to employers had grown from 14,000 to 38,000,<sup>1</sup> or by 121 per cent.

Group insurance subscribed by the insurance companies for the employers protects the workers only as long as they remain in the service of the employer who has taken out the group policy. Because of this clause, group insurance soon became a mighty weapon in the hand of the employers against the individual wage-earner and began to undermine the influence of the labour organisations in the U.S.A. The trade unions had to take up the challenge. They came forward with labour class insurance institutions organised on modern lines and operating in the interest of the workers.<sup>2</sup>

have no other insurance cover : it has been estimated that not less than 30 per cent. of the workers covered by group insurance had no other insurance. A study made by the Travellers' Insurance Company of 2,000 cases claiming benefits under their accident and sickness policies revealed the fact that 94 per cent. received no other benefit during their period of incapacity. (2) It was in many cases cheaper than individual insurance, and there was no need often for individual medical examination. (3) It increased the employees' stability and goodwill. (4) It lessened the necessity for "passing the hat". For the employer the only disadvantage was the cost : it was estimated that for group non-contributory life insurance 1 per cent. had to be added to the wages bill. See *Memo-randum on Group Insurance*, Industrial Relations Section, Princeton University, Princeton, pp. 13-14.

<sup>1</sup> *The Annals*, May, 1932, p. 41.

<sup>2</sup> The labour organisations have opposed the employers' plan because "it tied the worker to his job". They have also insisted that the worker paid too much for the benefit of group insurance : "A 1,000 dollar group insurance policy costs an average employer about 4 cents a day or about 15.60 dollars a year. The figures we find on income, wages and hours indicate that the employees of a non-union shop receive 4 cents an hour less than the union shop. They work 9 hours a day instead of an 8-hour day. This difference would mean that in the non-union shop, the workers contribute to the employer each day nine times the amount for the group insurance policy 'given' to them" (see *Proceedings of the 44th Annual Convention of the American Federation of Labour*, 1924, P. 47).

Group insurance<sup>1</sup> is also very popular in Canada. It was started as group sickness and accident insurance in 1915 and was followed by life group insurance in 1916 and annuity group insurance in 1921. At the end of 1932 business in force in the group life insurance in Canada amounted to \$462,644,328 with death claims per \$1,000 of insurance amounting to \$6.58 and disability claims \$1.68.<sup>2</sup>

In Great Britain group life insurance has been developing very slowly, as a result of provisions already made for the working population through the various schemes of social insurance and the widespread activities of Industrial Assurance Companies and Friendly Societies. Group annuity schemes have proved more popular.<sup>3</sup>

In Switzerland<sup>4</sup> the development of group insurance has been very rapid: group annuities insurance reached at the end of 1932 the sum of 32,000,000 frs., six times that at the end of 1926.

In recent years a great change has taken place in urban co-operation as regards the position of individual members. Consumers' co-operation was built on the foundation of the household because during the nineteenth century the household was the main basis of economic activity for the greater part of the population. Workers who were employed outside their home, lived usually not far from the place of their employment and all their interests were centred around their locality and household. The growth of modern capitalism has resulted in the concentration of a great part of industry and trade in comparatively few towns and in the immense development of means of communications. Because of this, a great part of wage-earners live at long distances from the places where they are employed, and they spend a considerable part of their time outside their household and locality. As a result of this and many other changes the industrial interests of the workers, especially of the younger generation, have assumed in recent years a

<sup>1</sup> See *Transactions of the Tenth International Congress of Actuaries in Rome, 1934, Vol. I, Group Insurance*, pp. 467-657.

<sup>2</sup> *Ibid.*, p. 481.

<sup>3</sup> *Ibid.*, p. 493.

<sup>4</sup> *Ibid.*, p. 653.

greater importance as compared with their household interests than before. This fact is bound to influence considerably the organisation of popular insurance.

Insurance companies have built their organisation in such a manner as to be able to reach the maximum number of households. The wide net of their agents and offices reaches all remote corners of the country in order to approach prospective clients at their homes and collect premiums from already enrolled policy-holders. Many important co-operative insurance societies have used the same method and have approached individual members in their household in the same way as the ordinary companies. Industrial assurance could, however, at present be easier developed and better served at the place of employment, if an appropriate organisation could be established. It is advisable, therefore, to reorganise the machinery of popular and co-operative insurance in accordance with these new industrial conditions and their requirements. The experience of group insurance as organised by co-operative insurance societies shows that such a new system could be introduced without great difficulty. Under the system of group insurance, a group of individuals takes out a policy insuring each individual against death, accidents, etc., each member contributing to the joint premium. The usual conditions for dispensing with medical examination apply, and the annual premium in each year is adjusted according to the number of participants, new members being eligible for benefit after an agreed period. The group system need not be confined to consumers' societies and it is introduced with advantage in the case of members of other co-operative bodies. The premium might be paid by the society too, each member being debited with a proportionate amount. The introduction of such a system in credit societies <sup>1</sup> would benefit the

<sup>1</sup> The credit unions in U.S.A. have made use in the most promising manner of this form of insurance by organising their "Cuna" Society to subscribe loan protection insurance in the first place and to extend it later to other forms of life assurance. The "Cuna" protects the credit union and the sureties of the borrowing member, and in case of his death the remainder of the loan is covered by the insurance policy. But this is only a beginning. "Cuna" will be

society and the borrowers, as well as their sureties. There is no need to repeat here again Raiffeisen's arguments about the great value of co-operative insurance for agricultural co-operative organisations and their members.

Group insurance takes the form of collective insurance when it is subscribed by co-operative insurance institutions for the account of other co-operative societies (consumers', credit, productive) and for the benefit of their members. Collective insurance presents a higher form of group insurance in which the cost of insurance is not borne directly by individual members of the group, but is covered by the co-operative society or another collective body to which the members belong. It is well known that a good portion of savings accumulated in the form of share and loan capital by consumers' co-operative societies originates from dividends received by the members on their purchases. If this dividend or a part of it were to be used for the payment of premiums, the members of the societies could be insured without additional expenses. Gide rightly indicated that the dividend "gained from the consumers' society will provide money enough to meet such misfortunes, for by a happy dispensation while other forms of association cost money, this one brings it in". Chesson calculated that the yearly premium to be paid in France for a modest insurance against the risks to which members of working-class families are particularly exposed—sickness, old age, premature death—would not exceed two pounds per annum in all, and this sum could be easily obtained by affiliation to a consumers'

able to subscribe also popular life assurance at rates considerably lower than the ordinary life assurance companies because the policyholders will be enrolled through the credit unions and the latter will be able to collect premiums at a very low cost. The initiators of "Cuna" maintain that premiums for loan protection should be borne by the credit unions, which could in such a way provide collective insurance for their members.

Another important channel for the introduction of group insurance can be found in the Rural Hygiene and Health Co-operative Societies in Yugoslavia, in the Anti-Malaria Co-operative Societies in Bengal (India) and in the Japanese Health Co-operative Societies. See M. Colombain, *Rural Hygiene and Health Co-operative Societies in Yugoslavia*, International Labour Office, Genève, 1935.



society ; for even in France its value represents a bonus of only 5 per cent. on a total purchase of £40. One of the chief attractions of collective life assurance is its low cost. As a result of the absence of canvassers' and agents' fees and of having only one policy for the whole membership, the working expenses seldom exceed 3 per cent.

The collective life insurance scheme provides a way of insuring members not individually, but as a group, on the account of their co-operative society. The distribution of the surplus among the members of the society remains almost exactly in the same proportion as dividends on purchases ; only the date of the distribution of this part of the surplus (which is used for insurance) is different. Its payment is postponed to a time when the insured, or more often his family, is in great need of money (in case of death, illness, accident, etc.). In such times the money will be of more use than it would normally be. The result is not only an added benefit to the particular member but also in the security continuously afforded to all, a new and extra benefit to the membership generally, costing nothing to the society.' The adoption of collective life assurance, at least for normal funeral expenses, is doubly justified.

The benefit received by dependants as a result of past trading with a society through collective life insurance is usually spent to a large extent in providing funeral arrangements. It has been suggested, therefore, that where a society caters for such arrangements through collective life assurance the funeral should be entrusted to the society, and not to the private undertaker.<sup>1</sup>

<sup>1</sup> This right policy has no doubt actuated the new arrangements made by the Royal Arsenal Society in London to link up death benefit payments and funeral furnishing. The main feature of the new regulations is that claims for benefits will be allowed in full only when the society undertakes the funeral. In the first place, the benefit will be granted in payment of the account rendered by the funeral furnishing service. Any balance will then be paid in cash.

Claims for benefits will be made through the funeral service at the time of the death in order to qualify for payment, administration of the scheme thus being brought under the funeral depart-

The experience of the co-operative insurance societies in different countries and especially in Great Britain, Hungary, Sweden and elsewhere fully justifies Gide's optimistic expectations. Collective insurance has made very great progress in Great Britain. Under the collective life assurance plan a single policy is issued to a retail co-operative society, assuring the lives of all individual purchasing members, and the lives of the husbands or wives of such members.

When a member dies his family receives compensation calculated on the annual value of their purchases. In the case of married members the compensation is equivalent to 20 per cent. of the annual purchases if the husband dies (maximum payment £40), and 10 per cent. (maximum payment £20) if the wife dies. If an unmarried member dies, the compensation to his nearest relatives is 25 per cent. of the annual purchases (maximum payment £50). The annual value of purchases used as a basis for calculating compensation is computed on the average purchases for the last three years, so as to eliminate the effects of unemployment or other factors responsible for an accidental reduction in purchases.

This form of collective insurance reduces administrative expenses to a very small proportion of the premiums. The books kept by the retail societies save the C.I.S. the cost of issuing individual policies. This in contrast to industrial

ment itself. Like other co-operative death benefit schemes, the Arsenal Society's benefit is allowed on the death of a member, or of the husband or wife of a member, according to any combined purchases from the society, while claims are also admitted on the death of a widow, widower, or unmarried members of the society.

The new scheme also provides for an important extension of the benefit. A funeral furnishing benefit may be claimed on the death of a member's child. This benefit, which is also claimable through the funeral service, varies with the age of the child and with the degree of purchases from the society by the parents.

The Arsenal Society's new system came partly into operation at the beginning of this year, and for a period a portion of the benefit will be allowed to people who do not use the society's funeral service. The new regulations will come fully into force on January 1, 1938.

insurance where each member generally pays a weekly premium and many collecting agents and clerks are needed to collect these premiums and to keep the individual accounts. The cost of commissions and administration in industrial insurance may amount to as much as 40 per cent. of the premiums, but the administrative expenses for collective insurance do not exceed  $1\frac{1}{2}$  per cent. Collective insurance has been very favourably received by co-operative societies. In 1935, 821 societies with 3,000,000 members had adopted collective insurance. Since the commencement of the scheme, 1,114,197 claims have been paid, amounting to £8,614,381.

In Hungary, the General Consumers' Co-operative Society of Budapest, a society with 120 branches and over 70,000 members, has a special collective insurance agreement with "Corvinia". Every member whose purchases during the year amount to 400 pengö or more in the consumers' society is insured against death for a sum equivalent to 25 per cent. of his expenditure with the society, and his heirs are paid from 100 to 665 pengö; in the case of accidents, a double sum is paid. The insurance is effected without a medical examination and the members do not contribute to the cost of it. The duration of the insurance is one year (from one general meeting of the society to the next). Every member's insurance is renewed if he or she has made minimum purchases of 400 pengö during the year. The number of members purchasing over 400 pengö per annum was 9,568 in 1933 and 8,640 in 1934. Of these 7,705 (1933) and 6,621 (1934) registered themselves on the list of insured members. During the last nine years the society has paid 220,070 pengö in compensation.

In Sweden, the activity of "Samarbete" in collective accident insurance is of great importance and it provides a simple and cheap solution of the insurance problem. The great extension of this branch of business embracing about 275,000 persons, wage-earners, employees, officials, teachers, etc., shows that its services are much appreciated by the population. "Samarbete" occupies a dominating position in this field of insurance; other Swedish insurance societies

engaged in it collect together hardly one-third of the premiums' receipts of "Samarbete". Its operations have considerably increased during the years of economic crisis. The popularity of collective accident insurance is due to three main causes. The premium is very low, because overhead expenses are reduced by the simplicity of organisation. Subscription is easy: the insured is covered automatically by the fact that he is a member of an organisation or an employee of an enterprise which participates in the scheme. Finally, the claims are paid without delay, and the insured has no legal or other difficulties.

The information published by the International Co-operative Alliance<sup>1</sup> shows that in 1932 the volume of individual and collective insurance, subscribed by the co-operative insurance societies reporting, was as follows:

TABLE I

	<i>Individual.</i>	<i>Collective.</i>
Number of insured co-operative societies . . . .	65,801 (10)	118,095 <sup>2</sup> (12)
Number of individual policy-holders . . . . .	10,225,614 (25)	5,703,479 (13)
Insurance in force . . . . .	£626,902,675 (28)	£82,668,602 (10)
Premiums received . . . . .	£7,151,562 (27)	£567,969 (13)
Claims paid . . . . .	£2,381,344 (27)	£477,441 (12)

As can be seen from these figures, which summarise mainly the activities of consumers' co-operative insurance societies, collective insurance covers over one-third of all persons insured by them.

Many attempts have been made to bring popular insurance within the purview of various organisations, trade unions, large industrial enterprises and, finally, saving institutions. The main aim of such schemes is to create for the saver an old age pension, without his losing the right of disposal over his savings. Any time the saver can withdraw or increase his savings, but if he leaves them with the saving institution the accumulated interest is used for his pension. These

<sup>1</sup> See *Statistics of the Affiliated National Organisations, 1930-1932*, London, 1934, pp. 157-8.

<sup>2</sup> Number of collective policies. Numbers in brackets show the number of reporting organisations.

experiments have achieved a scant success ; better results have been obtained when they have been worked in conjunction with co-operative organisations, not only for the insurance of individuals, but also of groups on collective lines.

Co-operative insurance institutions subscribe insurance not only for members as individuals and in groups, but cover also the risks incurred in the course of their activities by co-operative organisations themselves.<sup>1</sup> Some of the co-operative societies, however, practise self-insurance, although such practice hampers the insurance interests of the whole movement. Instead of paying an annual premium to an insurance society, the self-insuring society pays each year an amount into a fund of its own and draws upon this fund to meet any losses that may be incurred as a result of accidents or fire. A society always runs a great risk<sup>2</sup> when it undertakes its own insurance in this way : and only the largest societies with widely distributed properties which are not likely to be involved in one general conflagration, can justifiably attempt to become their own insurers against loss from fire. Even in the case of large societies, however, a great risk of serious loss is run during the earlier years when the fund is being built up, and such societies miss the special advice regarding methods of protection against fire which co-operative insurance societies usually give to collective and individual policy-holders insured with them. In the case of accident and employers' liability insurance funds, the risk is not so great as in the case of fire insurance : but in this field, too, even large societies run considerable risk of disastrous losses. It is, therefore, important that co-operative organisations should cover their insurance needs through co-operative insurance institutions. By using the services of these societies they become shareholders and policy-holders of their co-operative insurance society, receive the double benefit of dividends and bonuses, and participate in the management of the society.

<sup>1</sup> See pp. 121-2.

<sup>2</sup> See Hall, *Handbook*, p. 228.

## 2. SCOPE OF OPERATIONS

The scope of operations of co-operative insurance societies has a great influence on the form of their organisation. How wide should be the scope of operations of a co-operative insurance society? Should it cover one group of risks only or should different branches be operated simultaneously? In other words, should preference be given to special or general co-operative insurance societies? It is too early to give a final reply to this question because the experience of the principal co-operative insurance societies has not yet been fully summarised. But as far as it can be judged at present the position differs in urban and rural societies and in local and national ones.

Urban societies, if they are not prevented by special legislation from doing so, usually establish different branches of insurance in one society organising it as a general society. The following table shows the position in urban societies of different countries.

TABLE 2

<i>Country.</i>	<i>Society.</i>	<i>Risks Covered.</i>
<i>(a) General Societies.</i>		
Belgium . .	Prévoyance Sociale	Life, fire, accident.
Bulgaria . .	Civil Service	Life, fire, accident.
" . .	Sadruga	Life, fire, property.
Czechoslovakia	Czechoslovakia	Life, fire, property.
" . .	German Consumers'	Life, fire, property, motor-car.
Denmark . .	Tryg	Life, annuity.
Finland . .	Kansa	Fire, accident.
France . .	La Solidarité	Fire, property.
Holland . .	De Handelskamer	Fire, accident, property.
Hungary . .	Corvinia	Life, fire, accident, property.
Germany . .	" People's Welfare "	Life, fire, property.
Great Britain	C.I.S.	Life, fire, property and all other risks.
Sweden . .	Samarbete	Fire and property.
Palestine . .	" Hassneh "	Life, fire, accident, motor and other risks.

*(b) Special Societies.*

*Life* : Bulgaria (Teachers), Finland (Pohja and Kansa), Holland (Workers' Insurance Bank), Norway (Samvirke), Sweden (Folket), Switzerland (Prévoyance Sociale), U.S.A. ("Union Labour", "Union Co-operative", "Cuna"). *Fire* : Finland (Tulenvara), Norway (Samvirke) and U.S.A. (Workmen's Mutual).

It can be seen that the majority of consumers' societies operate as general societies ; and it is only in the countries where legislative restrictions prevent the formation of societies operating in life and fire insurance simultaneously that special societies for these branches have been established, as in Sweden, Norway and Finland ; and even in these countries the special societies are trying to combine different branches, as "Kansa" in Finland (fire and accidents). In addition, the special societies have introduced a joint management organisation by "personal union", the same directors and even managers being elected to the management board of each special society of the group (Sweden, Norway, Germany, etc.). This shows clearly that, if permitted by law, these special societies would also amalgamate into one general society.

It is easy to understand this trend towards the formation of general urban societies. As long as the premiums for each branch of insurance are calculated scientifically by trained specialists and the funds of each branch are kept separately and are valued periodically, there is no danger that the operations of one branch will affect the other branches adversely. On the other hand, there are great advantages to a society in developing different branches of insurance : it increases the size of the society and with it the confidence of policy-holders, and thus makes it easier to attract new members : it increases the volume of investments and consequently provides opportunities to make them more varied ; it decreases the cost of operations.

In rural insurance the situation is a different one : here the small local society still remains the dominating type. But even here the position differs in various branches of insurance. Some of the rural risks, such as fire, are, from

the actuarial point of view, as predictable as the urban ones. Others, such as livestock or hail, are less predictable and show great fluctuations. Anyhow, the local agricultural societies can be regarded as safe only when they re-insure the predominant portion of their risk with central societies. It is therefore advisable that the small rural societies dealing with special occupational risks should remain specialised societies, uniting a group of farmers for each special insurance purpose.

But how should the central insurance institutions for the re-insurance of the special societies be organised? Should they be organised as general or special societies? Experience shows that in the majority of cases they are special societies. This can be seen very clearly in the French system, which has special re-insurance societies for each of the five branches of insurance. The same applies to Bulgaria, where three different sections had to be established in the Agricultural and Co-operative Bank of Bulgaria. There is also another reason for building up these central societies as special ones: they often receive State subsidies or grants, because the risks covered by them are of such a nature that their actuarial value cannot at present be calculated precisely and the cost of it would often be prohibitive for the farmers. State help allows for a reduction in the cost of insurance and makes its services available to the rural population. But it is difficult to give State grants to one branch only of a society, and it is more convenient to do it for special societies covering a single type of risk.

As regards agricultural insurance societies conducted on a national scale, there is a mixed picture. Some of them are built up as general societies (in Australia, Great Britain, Hungary), and some as special ones. Two facts are, however, clear: (1) very few agricultural life assurance societies deal with insurance of property risks of any kind; (2) the most successful national societies in such branches of insurance as livestock (Hungary) or hail (Switzerland) are special societies. The argument about the facility of organising State aid also remains valid for these societies.



### 3. INTERNAL ORGANISATION

The problem of internal organisation deals with the formation and functioning of the management organs of the societies—general meetings, administration and control—which ought to be organised in a way as to guarantee their co-operative democratic character and the participation of members in the management and activities of the institution. It takes three different aspects in accordance with the division of co-operative insurance societies into first (primary), second (secondary) and third grade.

The societies of the first grade are built on individual membership, each member being a policy-holder and having one voice in the management of the society. The members elect at their general meeting the managing bodies and shape the policy of the society. If the members are spread over a large territory and cannot easily assemble in one general meeting, they are represented through their delegates: the membership is divided into districts, each of which has a conference, at which delegates are elected for the general meeting of the society.

In societies of the second grade, which are composed mainly of collective members, the general meeting of the society consists of representatives of the member organisations. The number of such representatives for each collective member is fixed in accordance with their participation in the share or guarantee capital of the insurance society or the amount of insurance covered through it. In order to protect the smaller organisations the representation of any one organisation is usually limited to one-tenth of all votes represented at the general meeting. In cases where individual policy-holders and members are admitted to the general meeting, they elect, as a group, delegates in accordance with the regulations of the Articles of Association.

A new method was recently introduced in Finland where experience has proved that the individual policy-holders being scattered all over the country do not make use of their voting right, with the result that, for the most part, only the employees of the societies take part in annual meetings

and elections. The new Finnish legislation offered, however, a chance to arrange matters in a different way. According to the Articles of Association of "Kansa", persons insured are not shareholders of the society and are not entitled to vote: the voters consisting exclusively of the consumers' co-operative societies and their central organisations. They have votes in accordance with the size of the collective assurances and the funeral aid insurance that they have taken out in favour of their employees and members. However, the individuals assured can also express their opinions, since at the annual meetings of the consumers' societies they elect their society's representative to "Kansa's" meeting. As the elected representative sometimes represents a smaller, sometimes a larger membership, and also a smaller or a larger group of assured persons, he has a smaller or larger vote according to the society's roll of individual members; the number of votes is slightly decreased in proportion when the number of members exceeds 5,000.

Finally, the third-grade co-operative insurance societies, established by the central co-operative institutions, can hardly be called co-operative from the point of view of the form of their organisation or management. The individual and even collective policy-holders have seldom a direct representation on their management bodies, which are elected by the central co-operative organisations holding their shares. Such societies, though their general policy and the distribution of surpluses may be ideal for the policy-holders, are in great danger of losing their co-operative character, because the mass of policy-holders has no direct responsibility for their management. The policy-holders do not feel themselves members of the institution and use its services in the same way as those of the profit-making insurance companies. A shoe factory may be co-operative if it belongs to a C.W.S., but a co-operative insurance society owned by a C.W.S. cannot be conducted by the same methods as industrial enterprises, because it deals with human beings as the units of its organisation and operations. Therefore, the institutions of this group, even

though they may be very successful from the financial point of view, need a reorganisation of their social foundation ; they need, in particular, the inclusion of representatives of policy-holders in their management bodies.

The management organs differ considerably in societies of various size. In the smaller societies a board of directors or even one director is the executive organ. In larger societies usually a council of administration supervises the activities of the directors from one general meeting to another.

Finally, in many societies control commissions are established. These commissions audit accounts and control the management in general. They collaborate with the auditors of the society who audit the yearly reports and make suggestions for financial improvement if such are needed. The control commission deals also with the periodical actuarial valuations which show the actual position of the society as an insurance enterprise. In countries where a great number of co-operative insurance societies are in existence, the establishment of special Auditing and Actuarial Co-operative Unions would be a great help for the development of the co-operative insurance movement.

#### 4. AGENCY SYSTEM

The form of contact with the membership in certain groups of co-operative insurance societies differs from that in other branches of co-operation. In those branches there is no intermediary between the member and the co-operative society. The members come direct to the co-operative shop, to the co-operative factory, to the packing station, or to the buying or marketing centre. Nobody is paid commission for the enrolment of new members which is regarded as a voluntary duty of all co-operators. The practice of central co-operative insurance institutions is different.

Only a small minority of central co-operative insurance societies employ the usual co-operative method for the enrolment of new members. The majority do it through individual and collective agents. The prevailing system is

to subscribe insurance through individual agents, and some of the societies, as can be seen from the following table, employ a considerable number of agents.

TABLE 3

Belgium, " Prévoyance "	2,700
Bulgaria, " Civil Service "	420
Czechoslovakia, " Czechoslovakia "	3,000
Denmark, " Andelsanstalten Tryg "	1,850
Denmark, Accident I.S.	1,600
Denmark, Workers' L.C.S.	145
Finland, " Aura "	1,700
Finland, " Kansa " (Life)	3,800
Finland, " Kansa " (Fire)	2,000
France, " La Solidarité "	250
Great Britain, " C.I.S. "	12,705 *
Holland, " Insurance Bank "	720
Norway, " Samvirke "	1,400
Switzerland, Hail I.S.	400

\* Of which 4,953 are full-time agents.

In some countries, especially where Raiffeisen's principles have considerable influence, the enrolment of new members is done through local co-operative societies, peoples' banks, farm boards, and other co-operative organisations, which usually receive a small commission for their services. In many societies such collective agents also look after the collection of premiums and maintain contact between the insurance society and the policy-holder. From the co-operative point of view, the operation through collective agents has considerable advantages. The difficulty lies, however, in the fact that the urban co-operative distributive organisations of the consumers' type are evidently not adapted to the performance of such services. This is made quite clear by the operations of the Co-operative Insurance Society, Ltd., in Great Britain. This society, which employs the highest number of agents of all co-operative insurance societies in the world (12,705), has many consumers' co-operative societies acting as its agents; it was found out, however, from experience, that very few persons go to a co-operative store to place their insurances and it is necessary to canvass them in their homes. Many co-operative local

societies, who have acted as agents for years, recognise the force of this argument and have transferred their agencies to the full-time agents of the C.I.S.

The question of agents is of considerable importance and demands a closer examination. In order to be able to answer the question whether the employment of agents by co-operative insurance institutions is not in contradiction to the general principles of co-operative organisation, one must first analyse the functions of an agent. These functions are often misrepresented, and the valuable services rendered by a well-organised and educated agency force are overlooked.

It must be admitted that the vital importance of insurance for each member of the community is not yet recognised by the masses of the population. There are many who do not see the need for insurance; others have not enough confidence in the insurance companies. The agent has first to educate the future policy-holder as to the importance of being insured; secondly, he has to inspire him with confidence in the insurance institution he represents. The agent often knows the future policy-holder personally and is able to bring him into contact with an insurance institution which the former would not approach on his own initiative. The next function of the agent is to keep in touch with the policy-holder and to follow the changes of his address or occupation. It is often overlooked how movable is the urban population nowadays. Lemair compiled the following figures showing the recent movements of the population in a few representative towns of Belgium during one year.

TABLE 4

Town.	No. of Inhabitants.	Movement of the Population to :			Total Changes (including other Changes).
		Another Address.	Another Town.	New Arrivals.	
Ghent . . . . .	169,473	25,000	11,674	13,696	58,849
Liège . . . . .	172,643	51,278	15,593	17,499	87,821
Schaerbeek . . . . .	94,176	14,400	14,900	18,511	49,417

As can be seen from this table, 40-50 per cent. of the total population moved during one year. It is evident that the agent plays a very useful part by following all these changes and keeping in contact with the policy-holders. Finally, the collection of premiums is done mainly through the agents and their services in this respect are indispensable under the present system of organisation.

It must be remembered that in countries where insurance activities have been turned into State monopolies the agents were replaced by officials, who have been doing the same work. The public insurance institutions which have been operating without agents (*i.e.* La Caisse d'Epargne in Belgium), though their rates are very favourable, have a negligible number of policy-holders. The experience of similar institutions in other countries, including this country, has been the same: if the household is to remain the principal unit of insurance activities, the agency system cannot be replaced. It is imperative only that the agents should have the necessary qualifications for their work, that they should be specially trained in regard to the legal and economic side of their functions, and that they should be co-operatively educated, so that they may be able to serve as propagators of co-operative ideas in general.

It must be noted, however, that the possibilities of organising group and collective insurance are increasing considerably as a result of the economic changes which have been taking place during recent years. The development of group and collective insurance is doing away with the old individualistic agency method and opens great possibilities for the building up of a really co-operative insurance system. The future of co-operative urban insurance in general, and especially of collective and group insurance, depends directly on the development of a new type of co-operative organisation inside the industrial and trading enterprise—such as the credit unions in the U.S.A., which would serve also as the best and most economic instrument for spreading co-operative insurance amongst wage-earners.

## 5. EXTERNAL ORGANISATION

External organisation deals with the relations of a co-operative insurance society, as an organised unit, to other co-operative insurance societies. These relations have in turn three aspects: the relations between societies of different grades; those between separate societies of the same and different grades in one country; and the relations between societies of different countries. These three aspects can be classified as grade, national and international relations.

The first of them deals with the allocation of operations between insurance organisations of different scale and especially between local and central societies. Some writers think that, as in the case of co-operative credit societies, the best unit for a co-operative insurance system is the small village society. They believe that such societies, through the strict limitation of their risks, and especially because they operate in a limited area, avoid many hazards against which the large general insurance company must provide. Some of the organisers of co-operative and mutual insurance institutions, especially of fire insurance, argue that rural environments are much more suitable for this non-profit-making form of insurance organisation, and they consider it advisable to limit co-operative insurance to the needs of the rural population.

The local insurance unit is certainly of very great importance. Even those writers who over-estimate the importance of central organisations have to admit that "while co-operative insurance is on the whole a matter for the central organisation rather than local co-operative societies, under some conditions the local unit may be very effectively employed". It is evident, however, that local co-operative insurance societies can be successful only if they form a part of a well-established, centralised and federated system.

The main argument for the building up of such a system is that insurance business has to be operated on so large a scale if it is to be able to aggregate risks, that it is beyond the reach of the ordinary type of local association. The tendency to form insurance unions and syndicates is increas-

ing with the growth of interest in insurance activities in general, and co-operative insurance is developing in the same direction.

The second problem is that of the relationship between different co-operative insurance societies in one country. There are countries where there is quite a number of different co-operative insurance societies in operation, as can be seen from the following table composed of the main insurance societies covered by the present study.

The table on the opposite page shows that the problem of relationship is a serious one: in some countries many co-operative insurance societies of different types operate simultaneously (such as in societies of consumers', agricultural and co-operative employees); and there are even countries (*e.g.* Finland) where central societies of the same type (agricultural or consumers') are established by different groups of co-operative organisations.

Should the formation of only one co-operative insurance society for each country be advocated or should the societies of the same group, say all agricultural societies, be amalgamated in one society? The study of co-operative insurance is only in its beginnings, and it is very difficult and premature to press for final decisions. One thing is, however, quite clear. There must be collaboration and co-ordination amongst all co-operative insurance societies operating in one country. A Co-operative Insurance Council, in which all such societies and the co-operative unions should be represented, would be a step forward in the direction for the establishment of a co-operative insurance system. The next step should be the formation of an Auditing and Actuarial Co-operative Insurance Union, which would considerably help to develop and consolidate the co-operative insurance movement.

It is interesting to note that in India the beginning of such developments can already be noticed. The co-operative insurance societies are amending their articles of association in order to have the right to conduct operations all over the country and are concluding re-insurance agreements among themselves. They consider that " re-insurance



TABLE 5

	Consumers'.				Agricultural.						Co-operative Employees'.	Total.
	Consumers'.	Co-operative Labour.	Labour.	Total.	General.				Special.	Total.		
					Raiffeisen.	General.	National Mutual	Total.				
Algeria . . . . .	—	—	—	—	—	—	1	1	1	2	—	2
Argentina . . . . .	—	—	—	—	—	—	—	—	8	8	—	8
Australia . . . . .	—	—	—	—	—	3	—	3	—	3	—	3
Belgium . . . . .	—	—	1	1	—	1	—	1	7	8	—	9
Bulgaria . . . . .	7	—	—	7	1	—	—	1	—	1	—	8
Canada . . . . .	—	—	—	—	—	—	—	—	4	4	—	4
Czechoslovakia . . . . .	1	1	—	2	—	—	—	—	—	—	—	2
Denmark . . . . .	2	—	—	2	—	—	—	—	3	3	1	6
Estonia . . . . .	—	—	—	—	—	1	—	1	—	1	—	1
Finland . . . . .	5	—	—	5	—	1	—	1	1	2	3	10
France . . . . .	1	—	—	1	—	—	2	2	8	10	—	11
Germany . . . . .	—	2	—	2	1	—	—	1	9	10	2	14
Great Britain . . . . .	1	—	—	1	—	2	—	2	4	6	—	7
Holland . . . . .	1	—	1	2	—	—	—	—	2	2	—	4
Hungary . . . . .	—	1	—	1	—	1	—	1	1	2	—	3
India . . . . .	—	—	—	—	5	—	—	5	—	5	—	5
Ireland * . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
Italy . . . . .	—	—	—	—	—	1	—	1	5	6	—	6
Latvia . . . . .	—	—	—	—	—	1	—	1	—	1	—	1
Lithuania . . . . .	—	—	—	—	—	1	—	1	—	1	—	1
Luxemburg . . . . .	—	—	—	—	—	—	—	—	1	1	—	1
Morocco . . . . .	—	—	—	—	—	—	1	1	1	2	—	2
Norway . . . . .	2	—	—	2	—	—	—	—	1	1	—	3
Palestine . . . . .	—	—	1	1	—	—	—	—	3	3	—	4
Roumania . . . . .	1	—	—	1	—	—	—	—	—	—	—	1
Scotland . . . . .	1	—	—	1	—	—	—	—	1	1	—	2
Spain . . . . .	1	—	—	1	—	—	1	1	3	4	—	5
South Africa . . . . .	—	—	—	—	—	—	—	—	1	1	—	1
Sweden . . . . .	2	—	—	2	—	—	—	—	—	—	—	2
Switzerland . . . . .	—	1	—	1	—	—	—	—	3	3	1	5
Tunisia . . . . .	—	—	—	—	—	—	1	1	1	2	—	2
Ukraine † . . . . .	1	—	—	1	—	1	—	1	—	1	—	2
U.S.A. . . . .	2	—	2	4	—	—	—	—	3	3	—	7
U.S.S.R. † . . . . .	1	—	—	1	—	1	—	1	—	1	—	2
Yugoslavia . . . . .	1	—	—	1	—	—	—	—	1	1	—	2
	30	5	5	40	7	14	6	27	72	99	7	146

\* The C.I.S. (Great Britain) operates also in Ireland.

† In the U.S.S.R. and Ukraine the co-operative insurance societies have stopped their operations.

between several co-operative insurance societies is the first step in unifying their interests and extending the benefits of co-operative insurance to the whole of India." The future aim is to establish a United Co-operative Insurance Society of India.

The question of the relations of co-operative insurance societies of different countries is to a great extent a problem of the future. At present only 18 co-operative insurance organisations, mainly of the consumers' type,<sup>1</sup> united in the Insurance Committee of the International Co-operative Alliance, have any connections among themselves. The Insurance Committee has as its objects joint investigation, exchange of information and the establishment of international co-operative relations in insurance matters. The societies which are eligible for membership are co-operative societies and those societies which are organised on a non-profit-making basis and limit their dividend to a very low figure (5-6 per cent.). Nevertheless, in cases in which such societies are not affiliated, directly or indirectly, to the International Co-operative Alliance, they can become members of the Insurance Committee of the International Co-operative Alliance only with the consent of the Central Co-operative Organisation of their respective countries. The executive consists of the President and General Secretary of the International Co-operative Alliance and five members elected by the Insurance Committee.<sup>2</sup>

<sup>1</sup> Co-operative Insurance Society (Great Britain), La Prévoyance Sociale (Belgium), Co-operative Civil Service Insurance Society (Bulgaria), Andelsanstalten Tryg (Denmark), Central Co-operative Insurance Society (Estonia), Kansa (Finland), Corvinia (Hungary), La Solidarité (France), Central Union for Co-operative Insurance (Latvia), Samvirke (Norway), Hassneh (Palestine), Insurance Bank (Holland), Vulturul (Roumania), Folket and Samarbete (Sweden), Czechoslovakia (Czechoslovakia), La Prévision Sociale (Spain) and others.

<sup>2</sup> The Executive is responsible for the organisation of the general meetings and the preparation of the business. The secretary of the committee is elected by the Executive and is responsible for the co-ordination of information, for undertaking necessary investigations and for supplying the affiliated organisations with summaries of the various documents. The secretary is also entrusted with the

The committee has collected and published very valuable material concerning the operations and activities of its member-societies. An amount of practical work has also been done for the establishment of collaboration among the societies, especially in regard to re-insurance. At the present time many re-insurance contracts have been concluded between co-operative assurance societies. Two objects have been achieved. On the one hand, the benefits arising from these contracts go to co-operative societies, and in this way their power is increased at the expense of capitalist institutions. On the other hand, the way is being paved for closer collaboration between the societies and for the establishment in the future for an International Co-operative Re-Insurance Society.<sup>1</sup>

#### 6. RE-INSURANCE

Co-operative Insurance Societies transfer to the re-insuring society part of the risks subscribed by them in order to cover themselves against an unforeseen high ratio of contingencies. They do it at a cost lower than that paid to them by the insured policy-holders. There are three main methods of re-insurance: (a) by transferring each risk in whole or in part separately, (b) by covering a certain pro-  
duty of encouraging and promoting relations between co-operative or workers' insurance societies and of furnishing all documents necessary for this purpose.

<sup>1</sup> A promising step in this direction was taken by the Scandinavian co-operative insurance societies, which called in September, 1935, a conference in Stockholm with the participation of all the important co-operative societies of the Scandinavian countries. The conference has established personal contact between the leading members of the movement and prepared grounds for closer collaboration between societies. The conference discussed the position and the tasks of each separate society and the possibilities of developing its operations by joint action. Special attention has been devoted to re-insurance problems. Considerable headway has been made in the development of re-insurance operations between the Scandinavian societies: accidents re-insurance operations are effected between Samarbete (Sweden) and Kansa (Finland); Samvirke (Norway) re-insures its accidents, fire, motor-car and glass risks with Samarbete (Sweden), and re-insures for the latter fire risks.

portion of all losses incurred during the given period, and (c) by re-insuring all losses sustained over a certain sum.

The local co-operative and mutual insurance societies re-insure a considerable part of the policies subscribed by them with the Central Re-insurance Societies. Such re-insurance societies are established in many countries; they function either as general societies for the re-insurance of different types of risks, as in agricultural insurance in Estonia, Latvia, Lithuania, Bulgaria, Italy, Belgium and elsewhere, or as special societies for the re-insurance of one type of risks only. The latter societies operate in Belgium, Denmark, Finland, Holland, Hungary; they form also a part of the State-supported system of mutual insurance in Algeria, France, Holland, Morocco, Spain, Tunis, Switzerland. Some co-operative insurance societies re-insure a part of their business with other co-operative societies of the same group in their own country, as in India, or with co-operative insurance societies abroad. The Insurance Committee of the International Co-operative Alliance has made a good beginning in establishing business relations between its member societies in different countries, which has resulted in the conclusion of several re-insurance agreements between the British, Scandinavian, Bulgarian, Finnish, French and other national co-operative insurance societies. The national co-operative insurance societies of the consumers' group re-insure considerable amounts also with ordinary insurance societies: *e.g.* La Solidarité (France) re-insures 48 per cent., the Teachers' Mutual (Bulgaria) 36 per cent., Samvirke (Norway) 17 per cent., etc.

It is evident that the establishment of re-insurance operations between co-operative and mutual insurance societies both within each country and internationally, is the best beginning for the formation of a co-operative insurance system. Even if these re-insurance operations are started on a very modest scale, they serve to bring the societies together, to teach them collaboration, to make them acquainted with one another's difficulties and problems and so prepare the ground for operations of a wider scale.

## 7. RELATIONS WITH THE STATE

Relations with the State is the last question to be dealt with. The co-operative movement all over the world has always been proud of being an independent movement free from State support and interference. Times, however, change. This traditional theory grew up in times of competitive capitalism. Now we are on the way to a new conception of the State which becomes an important factor in a new regulated economy. Such a State not only introduces legislation fostering economic developments, but must also support directly such branches of economic life as are neglected by private initiative. Many branches of rural insurance—especially hail, windstorm and livestock—do not represent tempting playgrounds for profit-making enterprise, and they are subscribed by capitalist societies at rates which are often nearly prohibitive for farmers. Co-operative insurance societies starting these branches of insurance are exposed to two alternatives: either they have to follow the course taken by profit-making insurance companies and calculate their rates high, or they subscribe insurance at low rates but face the danger of being unable to fulfil their obligations 100 per cent. in case of greater losses than had been foreseen by them. State grants and subsidies fill this gap. If the State participates in building up part of the capital of the insurance institution, it makes the latter stronger and creates the necessary reserve for emergencies; in other cases the State grants a regular subsidy and the society can regard it as a reserve for emergencies, or as covering part of the cost of operations. We are therefore of the opinion that State aid for co-operative agricultural insurance societies serves in some cases a useful purpose and should be advocated. But it must be understood that this aid should be only supplementary to the resources contributed by the co-operatively organised members and serve only as an additional reserve for unforeseen or incalculable emergencies. If the State participates in the capital of institutions, it should receive on the funds contributed the usual dividends paid to all shareholders

and guarantors ; while it grants subsidies, the latter should play only a supplementary part and not transform the insurance society into a State pensioner. These reservations are important, because there is sometimes a tendency in the less conscientious and educated co-operators to "milk" the State in the interests of the members. State aid greater than is absolutely necessary demoralises the co-operative spirit of the institution, robs it of its most valuable co-operative features, and must be resisted by the whole movement. Co-operative organisations seeing the dangers of State aid must, however, not refuse it in case of need ; they should make use of it with the necessary safeguards in the interest of the development of co-operation and for the satisfaction of the interest of their members.

## CHAPTER XI

### FUNDS AND THEIR INVESTMENT

#### I. FUNDS

CO-OPERATIVE insurance institutions, and especially life assurance societies, accumulate very considerable funds, composed of capital, of reserves and of surplus earned in course of operations. The investment of these resources in a safe, profitable and co-operatively useful manner is of great importance for the development of the societies and for the satisfaction of the needs of their members.

The capital structure of non-profitmaking insurance varies, and in accordance with the legislation of different countries the societies are of three main types. The first is a shareholding or limited society where the capital is subscribed and paid in part or in full by the shareholders: the second is a society with a guaranteed capital, for which the guarantors receive usually some remuneration in the form of a low annual dividend or interest; and the third type is a mutual society without share capital. In some of these societies *capital reserves* are formed from surpluses and they take the place of subscribed or guaranteed capital.

The reserves of co-operative insurance societies vary even more than their capital structure. Apart from capital reserves many societies have established, in accordance with the legal requirements of their country, *legal reserves* formed by an annual transfer of a certain percentage of surplus as fixed by the Articles of Association (5-10 per cent.). Next come *general reserves*, established to strengthen the capital funds in case of an emergency. In addition, *insurance reserves* are formed for the various branches of business in order to cover the obligations under the policies issued by the special branch (life, fire, accident, etc.). These reserves (mathematical reserves) play the most important part in the life assurance branch. They are

calculated periodically by actuaries, and the surplus or deficiency of the insurance funds ascertained. Apart from these reserves, some societies have *special reserves* for depreciation of securities, currency, or for bad debts, etc. Finally, there are *reserves for unsettled claims*, which figure in the balance sheets of many societies.

The following tables show the capital structure of co-operative insurance societies in different countries. They are composed from the figures for the year 1934, collected by the International Labour Office,<sup>1</sup> and for the sake of comparison the national exchanges are converted into gold francs. The figures for the consumers' and agricultural insurance societies are grouped in two separate tables, because this division simplifies their comparison.

The table on the opposite page, which deals with consumers' co-operative societies, is divided in accordance with our classification into three main groups: co-operative, co-operative-labour and co-operative employees.<sup>2</sup> As can be seen from this table, nearly all the consumers' insurance societies have a paid-up or guaranteed capital, and only a few are organised as mutuals,<sup>3</sup> but some of the insurance societies of co-operative employees operate without capital and rely only on their general reserves in case of an emergency.

The general reserves of the societies show a very satisfactory position. They are many times larger than the capital, and reach even in the recently established societies considerable figures.

The insurance reserves are very considerable, especially in all life assurance societies: they are periodically valued by actuaries and show substantial surpluses. The proportion of total assets to the sum of insurance in force is also satisfactory. In some countries it is much higher than in the ordinary companies, thus showing that co-operative insurance societies take good care to strengthen

<sup>1</sup> See *International Directory of Co-operative Organisations*, International Labour Office, 1936, pp. 144-55.

<sup>2</sup> Including two societies of employees of agricultural co-operative societies.

<sup>3</sup> The Workmen's Mutual Fire Insurance Society (U.S.A.) and La Solidarité (France).



TABLE I  
CONSUMERS' SOCIETIES

Country.	Name of Society.	Year of Formation.	Total Assets.	Capital Paid or Guaranteed.	General Reserves.	Insurance or Mathematical Reserves.	Sum Insured.
(In 1,000 of gold francs)							
<b>A. CO-OPERATIVE:</b>							
<i>Primary :</i>							
Bulgaria . . .	Civil Service . . .	1905	20,867	—	2,422	15,596	263,078
Denmark . . .	Andelsanten Tryk . . .	1903	32,846	350	3,059	28,497	99,115
U.S.A. . . . .	Workmen's Fire . . .	1872	3,364	—	—	—	256,612
<i>Secondary :</i>							
Czechoslovakia . . .	Czechoslovakia . . .	1919	31,327	520	1,244	27,312	90,525
France . . . . .	La Solidarité . . . . .	1900	199	—	125	74	—
Roumania . . . . .	Vulturul . . . . .	1924	748	212	113	286	101,345
Spain . . . . .	La Prévision (F) . . . . .	1934	14	10	—	—	1,983
<i>Third Grade :</i>							
Great Britain . . . . .	C.I.S. . . . .	1868	303,521	410	19,406	273,975	1,521,946
Finland . . . . .	Kansa (L) . . . . .	1923	7,568	280	722	6,246	55,856
" . . . . .	Kansa (F.A) . . . . .	1910	1,503	420	69	943	136,339
" . . . . .	Pohja (L) . . . . .	1923	7,032	280	526	6,018	62,279
" . . . . .	Vara (F) . . . . .	1910	1,111	560	237	—	118,452
Norway . . . . .	Samvirke (F) . . . . .	1922	566	200	92	49	180,160
" . . . . .	" (L) . . . . .	1930	1,742	320	80	1,273	16,700
Sweden . . . . .	Samarbete (F) . . . . .	1908	15,562	800	7,893	6,083	1,555,040
" . . . . .	Folket (L) . . . . .	1914	52,854	—	6,760	44,488	191,520
<b>B. CO-OPERATIVE LABOUR :</b>							
Hungary . . . . .	Corvinia . . . . .	1922	1,310	270	20	—	131,029
Switzerland . . . . .	People's Welfare . . . . .	1917	13,580	250	530	11,237	38,873
Holland . . . . .	Insurance Bank . . . . .	1904	37,757	105	8,286	27,766	175,856
Belgium . . . . .	Social Welfare . . . . .	1907	18,940	223	1,738	12,499	1,273,348
Palestine . . . . .	Hassneh . . . . .	1926	214	70	8	101	1,819
<b>C. CO-OPERATIVE EMPLOYERS :</b>							
Finland . . . . .	Elonvara . . . . .	1919	2,546	—	112	2,427	—
" . . . . .	Orna . . . . .	1925	1,111	560	237	—	118,452
Switzerland . . . . .	Insurance Office . . . . .	1909	45,234	—	40	45,194	32,083
Denmark . . . . .	Andels Pensioner . . . . .	1919	5,327	53	560	4,025	1,710*
France . . . . .	Union N.M. Agricultural . . . . .	1905	1,014	—	794	—	758*

\* Annual Pension ; L = Life ; F = Fire ; A = Accident.

their financial position and offer their members not less and often even more security than ordinary insurance companies.

The composition of the funds of agricultural insurance societies is analysed in Table 2. They are also grouped in accordance with their classification into four groups: Raiffeisen, General, National Mutual, and Special Societies. As can be seen from this table nearly half of the agricultural societies have no capital and are formed as mutuals, relying

on their general and insurance reserves. On the other hand, the societies of the "General" group have large capital and only modest reserves. The proportion of total assets to the sum of insurance in force is a sound one, though it is lower than that of the consumers' insurance societies.

TABLE 2  
AGRICULTURAL SOCIETIES

Country.	Name of Society.	Year of Formation.	Total Assets.	Capital Paid or Guaranteed.	General Reserves.	Insurance Reserves.	Sum Insured.
(In 1,000 of gold francs)							
<b>A. RAIFFEISEN :</b>							
Germany . . .	Bauerndienst (F)	1934	—	1,650	210	41	—
" . . .	" (L)	1932	20,969	—	360	14,759	144,530
India, South . . .	India C.I.S.	1932	92	50	—	—	1,521
<b>B. GENERAL :</b>							
Australia . . .	C.I.C. . . .	1919	3,150	1,169	819	709	—
" . . .	F. & G. . . .	1918	14,366	4,753	947	—	—
" . . .	P. & C. . . .	1920	9,467	1,334	74	7,695	60,601
Hungary . . .	Gazdak . . . .	1899	—	1,392	—	5,444	—
Italy . . .	M.A.C.C.I. . . .	1926	417	144	9	—	—
Belgium . . .	Boerenbond . . .	1923	16,966	140	130	5,689	1,644,017
Estonia . . .	Central Society.	1923	283	27	8	73	209,921
Lithuania . . .	Kooperacya . . . .	1925	132	43	—	24	15,727
Latvia . . .	Central Union . . .	1922	836	338	—	253	254,678
<b>C. NATIONAL MUTUAL SOCIETIES :</b>							
Algeria . . .	Central Office . . .	1904	—	—	3,439	—	507,605
France . . .	Caisse Nationale						
	Accidents . . . .	1925	3,726	—	160	1,044	100,181
" . . .	Hail . . . .	1923	466	—	68	—	40,184
" . . .	Fire, etc. . . .	1912	1,399	—	1,062	—	1,290,116
" . . .	Equalisation Fund						
	for W.P.S. . . . .	1923	314	80	94	—	—
<b>D. SPECIAL :</b>							
Canada . . .	Wananesa Mutual						
	Fire . . . .	1897	3,942	—	3,685	—	748,650
Palestine . . .	Hachaklait Live-						
	stock . . . .	1920	183	75	65	13	2,924
Yugoslavia . . .	C. Cattle I.S.	1918	138	2	52	56	129
Canada . . .	Hail Insurance						
	Board, Alberta	1919	4,078	—	—	894	—
" . . .	Municipal Hail,						
	Saskatchewan	1917	8,525	—	—	186	—
Denmark . . .	Accident Insur-						
	ance for D. &	1898	5,268	—	2,163	1,965	—
" . . .	Farmers' Parish						
	Union . . . .	1909	336	—	140	—	—
Finland . . .	Mutl. I.S. for						
	Co-op. D.A. . . .	1920	993	—	4	797	2,419
" . . .	Vakava . . . .	1917	288	—	23	260	222,320
" . . .	Kerki . . . .	1927	18	14	—	—	359

## 2. INVESTMENTS

The investment policy of co-operative insurance institutions is influenced to a great extent by the legislation of each country and by the regulations of their Articles of Associations. Legal restrictions exist in many countries, as in Belgium, Bulgaria, Denmark, Finland, France, Hungary, Norway, Roumania, Sweden, and others. The funds of the societies can be placed with collective and individual borrowers. The first group consists of public, co-operative and private institutions, and the second of the society's members and of outside borrowers.

The investment of funds differs in life assurance institutions and in societies dealing with other branches of insurance. This difference also holds good for co-operative societies. The premiums of the life assurance societies are calculated in such a way that they have to be supplemented by the interest received on the investments of the societies. If these investments bring in less than was anticipated, then the deficiency has to be covered from other sources and falls finally on the policy-holders in the form of increased premiums or decreased benefits, bonuses, etc. The investment policy of life assurance societies must, therefore, be very far-seeing and provident, and the expectations of future income over a long period of years has to be calculated with great care and vision. Economic fluctuations have a great effect on the financial position of insurance institutions and especially of life assurance societies. So far as these investments are placed in securities of capitalist enterprises, they are subject also to fluctuations of capitalist economy. The funds of insurance institutions are invested for short, middle and long term periods. Short term investments earn usually less than the two other groups, but they can be relied upon, if funds are needed at short notice.

The investment policy of consumers' and agricultural co-operative insurance societies has to be shaped in such a way that will most benefit its own members or the given branch of the co-operative movement in general. The financial needs of the members of the two branches differ,

however, considerably : those of the agricultural population and of its co-operative institutions are much wider, because members of the agricultural co-operative institutions have a double set of requirements as consumers and as small producers. The investment policy of the consumers' and agricultural co-operative insurance societies has, therefore, to be treated separately.

An analysis of the distribution of investments in capitalist insurance companies will be very useful before passing to the examination of investment policy of co-operative insurance societies. The former<sup>1</sup> are divided among the following main classes :

TABLE 3

	<i>Distribution of Assets in Great Britain, 1931.</i>		<i>Assets of Assurance Companies (in percentage of Assets) in U.S.A., 1932.</i>
	<i>Assurance</i>	<i>Companies</i>	
	<i>Life.</i>	<i>Others.</i>	
Mortgages . . . . .	13.1	4.0	36.3 <sup>2</sup>
Loans (Private) . . . . .	6.3	—	18.5
„ Public bodies . . . . .	4.8	1.3	—
Securities (Government) . . . . .	33.9	35.2	8.4
Debentures . . . . .	31.0 { 17.1	29.7 { 18.9	—
Stocks and Shares . . . . .			13.9
Property . . . . .	4.6	6.8	4.0
Outstanding Agents . . . . .	—	—	—
Premiums and Interests . . . . .	3.8	14.9	—
Cash and Stamps. . . . .	1.7	6.8	1.0
Other accounts . . . . .	0.8	1.3	3.4
	100	100	100

The above table shows that there is a considerable difference in the channels of investments of the insurance companies in Great Britain and the U.S.A. In Great

<sup>1</sup> See Paish and Schwartz, *Insurance Funds and their Investment*, p. 66.

<sup>2</sup> Out of which 8.8 per cent. farm mortgages and 27.5 per cent. other mortgages.

Britain investments in Government securities represent one-third of total assets, and in the U.S.A. they account only for 8.4 per cent. The second largest item—Stock Exchange securities—amounts to about 30 per cent. of the assets of the insurance companies in both countries. Next come investments in mortgages, which are the single highest item of insurance investment in the U.S.A.—36.3 per cent.—and play also an important part in the investments of life assurance companies in Great Britain (13.1 per cent.). Loans are very high in the U.S.A.—18.5 per cent.—and in Great Britain, though they are much lower, they represent 6.3 per cent. of total assets. Cash and other accounts are kept at a low figure.

Let us compare with this the distribution of the investments of co-operative insurance societies, which can be seen (as percentages of total assets) from the following table compiled from the balance sheets of the societies:—

TABLE 4

Country.	Society.	Mortgages.	Real Estate.	Securities.			Cash and Banks.	Loans to Policy-holders.	Other Investments.
				Public.	Others.	Total.			
Bulgaria . .	Civil Service . .	36	15	—	2	2	28	19	—
Belgium . .	Prévoyance Sociale . .	34	20	—	—	36	4	1	5
Denmark . .	Andelstryg . .	10	—	27	42	69	—	—	21
Estonia . .	—	—	—	—	—	13	87	—	—
Finland . .	Kansa . . . .	58	—	18	16	34	—	8	—
Germany . .	Insurance Office	72	—	—	—	18	6	—	4
Holland . .	Insurance Bank	10	3	77	1	78	—	5	4
Hungary . .	Corvinia. . . .	—	60	—	20*	20	—	20*	—
Latvia . .	Central Union .	—	56	—	4	4	40	—	—
Roumania . .	Vulturul . . .	7	2	—	3*	3	78	4	6
Palestine . .	Hassneh. . . .	20	4	—	—	—	—	32	9†
Sweden . .	Folket . . . .	46	—	10	32	42	2	10	—
Norway . .	Samarbete . . .	51	—	3	38	41	8	—	—
Switzerland .	People's Welfare	62	—	21	—	21	10	5	2
U.S.A. . .	Workers' Fire .	58	23	—	—	—	5	—	14
U.S.A. . .	Union Labour .	10	4	40	18	58	6	3	19

\* Short-term loans on securities.

† Deposited with the Government.

There is clearly not much uniformity in the distribution of investments by societies of different countries. Investments in mortgages and real estate form over 50 per cent. of

total investments in many important societies (Bulgaria, Belgium, Finland, Sweden, Norway, Switzerland, Germany). The next place is occupied by Stock Exchange securities (public and private) in some countries (like Belgium, Denmark, Finland, Hungary, Sweden, Norway, Switzerland, U.S.A.), or by bank deposits in others (namely Bulgaria, Estonia, Latvia, Roumania). Loans to policy-holders represent a considerable item only in the investments of the societies in Palestine, Hungary, Bulgaria, Sweden, Finland, Switzerland, etc. Co-operative insurance societies keep a part of their funds mobile and liquid. At present they usually deposit such funds with banks (mainly with co-operative banks) or invest them by granting short-term loans against Stock Exchange securities. From co-operative viewpoint it is better to deposit funds in co-operative banks than to invest them in capitalist securities ; but this means really avoiding direct responsibility for investment. On such deposits the co-operative insurance societies have to be satisfied with comparatively low returns which affect the interests of their members by diminishing bonuses or increasing premiums. It is evident that this kind of investment will have to be continued as better channels have not yet been found. It would be possible, however, to decrease it considerably and to substitute it by other short term investments.

Co-operative insurance societies grant loans to collective and individual borrowers. The former consist of co-operative and public bodies. Co-operative organisations have been granted loans by the co-operative insurance societies in Belgium, Bulgaria, Denmark, Finland, France, Great Britain, Latvia, Holland, Norway, Sweden, and in other countries. In some countries, as in Finland, Belgium and Holland, loans are also granted to trade unions. State and municipal authorities use the credits of co-operative insurance societies in Belgium, Finland, France, Great Britain, Latvia, Holland and Sweden ; such credits are sometimes granted directly or in the form of an investment in municipal securities.

Among individual borrowers, the policy-holders of the

co-operative insurance societies are granted loans secured by their policies. A number of societies also advances credits to house-owners secured by mortgages on property.

It is difficult to summarise the experience of the co-operative insurance societies in regard to their investment policy, and it is no coincidence that out of fifteen societies which replied to the questionnaire of the Insurance Committee of the International Co-operative Alliance only three societies gave an answer to this question. Some of the societies indicated that their experience was too short to come to definite conclusions and others failed to reply to this question.<sup>1</sup>

The investment policy of the co-operative insurance societies has been successful in its results and the average yield has been high. In accordance with the information of the I.C.A. the yield for the year 1932-33 was as follows :

1. Bulgaria—Civil Service Society . . . . .	7·8
2. Denmark—Andeslanstalten Tryg . . . . .	4·5
3. Estland—Central Society . . . . .	5·5
4. Finland—Kansa . . . . .	6·8
5. France—La Solidarité . . . . .	4·5
6. Great Britain—C.I.S. . . . .	5·0
7. Hungary—Corvinia . . . . .	7·0
8. Latvia—Central Union . . . . .	5·0
9. Holland—Insurance Bank . . . . .	5·0
10. Palestine—Hassneh . . . . .	6·0
11. Belgium—Prévoyance . . . . .	5·1
12. Sweden—Folket . . . . .	5·0

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<sup>1</sup> The questionnaire was composed by Mr. Lesche in 1934 and was sent by the Insurance Committee of the International Co-operative Alliance to its members. The three answers were as follows : The Workers' Saving and Insurance Bank (Holland) indicated that it recorded losses only on funds invested in Stock Exchange securities as a result of economic fluctuations. Its experience with public loans or securities has been very satisfactory and no losses were suffered in this line of investment. Corvinia (Hungary) reported that, in its experience, loans on policies are very rarely reimbursed and are often settled by surrenders. Finally the Civil Service Society (Bulgaria) considered that the security of investment in Bulgaria in buildings is greater than in any other form of investment owing to the financial, political, and economic uncertainty in the country due mainly to world conditions.

Samvirke (Norway) showed earnings from  $2\frac{1}{2}$  to  $5\frac{1}{2}$ , and Vulturul (Roumania) from 4 to 11 per cent.

To what extent are the investments of co-operative insurance societies used in conjunction with financing co-operative institutions and their activities? The position in various countries differs considerably, and is greatly influenced by legal restrictions (such as in France) in regard to the investment of insurance funds. In some countries, like Bulgaria,<sup>1</sup> they are favourable to co-operative investment. As a result of such favourable legislation the Co-operative Civil Service Insurance Society has deposited with the central and local co-operative banks throughout the country 133,343,433 levas (£293,000). These funds are used by the co-operative credit institutions for granting loans to co-operative societies and their members. The money collected daily by the agents is paid into the local Peoples' Banks and is transferred to the account of the Society at the Union of the Peoples' Banks. There is a similar practice in Estonia where all bank deposits of the Central Insurance Society are kept in co-operative banks.

The percentage of liquid funds (to total investments) deposited by co-operative insurance societies with co-operative credit institutions in some countries is quite considerable, reaching 40 per cent. in Latvia, 35 per cent. in Palestine, 28 per cent. in Bulgaria (Civil Service Society).

In other countries loans on mortgages are granted mainly to co-operative organisations. Such is the position in Finland where the "Kansa" has placed at the disposal of the consumers' co-operative societies mortgage loans of

<sup>1</sup> In Bulgaria co-operative insurance societies are bound in their investment policy by legislation, which prescribes the manner in which the insurance reserves and premium reserves have to be invested. As regards investments in co-operative institutions, the Articles of Association of the Co-operative Civil Service Insurance Society indicate that the other sums apart from actuarial and technical reserves of the Society may be invested as follows: (a) deposits in co-operative credit institutions, public banks under the control of co-operative societies and other first-class credit establishments, (b) participation in financial schemes devised to promote national and co-operative economy.



31,700,000 F. Mk. (£143,000). In Holland the Central Workers' Insurance and Deposit Bank has granted to co-operative societies mortgage loans for 697,000 fl. (£86,000) and on promissory notes 273,242 fl. (£34,700). In Sweden mortgages are also the main branch of loans granted to co-operative societies. In Latvia the Central Union invested in co-operative enterprises 186,387 Lats and in Roumania "Vulturul" 9,635,837 Lei. In Belgium the Prévoyance Sociale does not invest in co-operative securities, but helps co-operative organisations by advertisements, contributions, profit-sharing schemes, etc.

### 3. NEW CHANNELS OF INVESTMENT

The initiators of co-operative insurance have considered as one of their main tasks the co-operative employment of the vast funds accumulated by the insurance societies. Raiffeisen—the first promoter of co-operative insurance—expected to find in these funds a new source for providing agricultural co-operative associations with long-term credit facilities.

But is the co-operative movement in need of credits and can it employ them in such a manner that the investments would be safe and profitable? It is not easy to give an affirmative answer to this question, because not much is known about the general position of co-operative finance. The great difficulty lies in the fact that different groups of co-operative societies (consumers', producers', agricultural, housing and others) operate without any connection or collaboration with one another. Co-operative activities are therefore often hampered by the lack of a comprehensive co-operative financial system. Each group of co-operative organisations—consumers', producers', credit, housing—develops its economic functions independently of other groups and without any co-ordination or collaboration. It is often the case that important activities are not carried out by one co-operative group because of the lack of the necessary funds, while at the same time co-operative banks, insurance companies or C.W. Societies are investing a considerable part of their funds in capitalist securities—and in

such way often back the competitors of co-operative enterprise. The case of co-operative insurance makes clear that the financial position of the whole co-operative movement would gain very considerably if a system of co-operative finance could be established in which all co-operative organisations would participate.

A natural question arises: could co-operative insurance societies render help to co-operative organisations and their members by increasing their investments through co-operative channels? This question can be answered in the affirmative.

In the sphere of short-term credit they could give great help to popular credit associations and to co-operative season-ticket societies. The working population suffers much from usury in money lending and hire purchases. The new form of popular co-operative credit, the credit unions, is an excellent method to combat usury in all its forms. The combination of their organisation with collective insurance of members will make the system impregnable. The urban co-operative insurance societies could use the system of credit unions as a foundation for their agency system and as a wide field for short-term investments.

Another wide field is the financing of season tickets for wage-earners who have to travel considerable distances to the place of employment. In the large towns there are many thousands of workers who have to travel daily from their homes to the factories and offices where they are employed. The difference between the price of a daily or even a weekly and a three-monthly ticket is so considerable that in some instances it reaches 200–300 per cent. per annum. But the cost of a three-monthly ticket often amounts to two or three weeks' wages. The majority of wage-earners are unable to pay it in advance, and overpay very considerable sums (amounting sometimes to a month's salary during the year). The purchase of quarterly season tickets for co-operators, by specially formed season-ticket co-operative societies or by consumers' co-operative organisations, is one of the most urgent tasks of the movement. Such tickets were repaid by weekly and monthly

instalments. If the issued tickets were to be insured against possible default or death of the ticket holder, the business would become as safe as Government securities. As the chance of default is very low the premium for such insurance would be modest and would not make the business uneconomical.

Short-term investments play, however, a subordinate part in the investment policy of insurance institutions, and especially of life insurance societies, for funds whose long-term investment is essential. But what could be done by co-operative insurance societies in the sphere of middle- and long-term credits? If they were ready to collaborate closely with other groups of co-operative enterprise they could be of the greatest assistance to co-operative housing, trade and industry.

It is difficult to dispute the fact that in the great majority of countries co-operative housing activities are underdeveloped. If the working population can regularly pay rents to house-owners, it would be as able to pay them to their own co-operative housing society and finally become owners of their flats or houses. But it is not easy to raise the initial capital for co-operative housing enterprise, and co-operative insurance societies could find in this sphere a valuable outlet for investment. Combined with life and fire insurance, the financing of housing co-operation could be an extremely useful and safe investment. Some co-operative insurance societies, such as the Bulgarian, are developing this line with great success.

Another important sphere of co-operative long-term investment could be the financing of the development of co-operative chain-stores (bazaars) and restaurants. For the last two decades these new and successful forms of enterprise which serve the working population have been financed to a considerable extent by insurance companies. Unfortunately, co-operation leaves many spheres most appropriate for its activities to capitalist enterprise. The explanation offered in some countries is lack of funds, which could be easily supplied by the co-operative insurance societies.

The third sphere for long-term co-operative investment is

co-operative industry—which also remains very underdeveloped. From the outset of their activities consumers' co-operative societies have been endeavouring to free consumers from exploitation by traders and producers, by manufacturing the necessary goods in their own factories. Up till now, however, even the most successful co-operative organisations produce only about one-third of their requirements in their own factories or buy them from co-operative productive societies. During the last fifteen years extensive trading operations have been started between the consumers' and agricultural societies in different countries. The development of these relations depends also upon the growth of co-operative industry. Unfortunately, the consumers' movement in many countries was too slow and overcautious in regard to industrial developments and left many new and promising branches of the production of consumers' goods in the hands of private enterprise. In some countries the shortage of long-term finance has been mentioned as the main cause of the slow development of co-operative industry.

The task of agricultural co-operative insurance societies in developing rural co-operative industries is probably even larger than that of the consumers' societies. The rural producers' co-operative organisations cannot develop their operations satisfactorily if they do not possess an organised net of butter, bacon, fruit-preserving factories, etc. They need very large funds for this purpose and in various countries they are badly hampered by the absence of long-term credits at low rates of interest. Great possibilities are open for the co-operative insurance institutions in this direction. They have to collaborate with the co-operative banks and show more courage and initiative in fostering co-operative industrial developments.

In the way to the increase of co-operative financing by the co-operative insurance societies various difficulties have to be faced. One of them lies in the fact that insurance societies will want to get the highest possible return on their funds, and in the case of life assurance funds they must do so if they are to give maximum benefits to their policy-

holders. On the other hand, the borrowing societies will want to borrow at the lowest possible rate. The problem of adjusting the rate of interest in such a way that it should be acceptable to both co-operative parties must not be overlooked. The experience of existing co-operative long-term financial institutions shows, however, that a satisfactory solution can be found ; because of the absence of vested proprietary interests and the lower expenses of co-operative trade and industry, both co-operative parties can more easily understand and meet one another on the question of interest rates.

Another difficulty which has not to be overlooked is the necessity for insurance societies, and especially life assurance societies, to *spread* their investments widely, in order not to be embarrassed by a failure or difficulties of an important borrower or group of borrowers. This general rule remains valid for co-operative insurance societies, and it is not advocated that they should at present invest all their funds in co-operative trade and industry only, and especially in one branch of it. We have suggested the financing of a varied range of co-operative activities which can be safely regarded as a wide spread of investments. It is of importance that co-operative insurance societies and their members should not be satisfied with the quality and the cost of their services only, but should pay serious attention to the co-operative investment of their funds, to the active participation of their societies in a co-operative financial system which has to be created if co-operation wants to preserve its place as an economic force in modern society.

#### 4. SUMMARY OF FINANCIAL POSITION

It is not easy to summarise the activities of the co-operative insurance societies in different countries, because of the difficulty at the moment of calculating exchange equivalents and because balance-sheets are published at different dates. The International Co-operative Alliance and the International Labour Office publish, however, from time to time, information on the subject. The following table, representing the operations (at the end of 1934) of

51 co-operative insurance societies all over the world, is composed in accordance with the data published by the International Labour Office.

TABLE 5

	Number of Societies Reporting.	Sum Insured or Reinsured.	Premiums Paid.	Claims Paid.	Total Assets.
		(In 1,000 of gold francs) <sup>1</sup>			
Europe (without U.S.S.R.) . . .	41	8,487,318 (28) <sup>2</sup>	244,983 (32)	74,032 (32)	647,666 (32)
North America . . .	4	1,054,811 (3)	5,381 (3)	3,068 (3)	11,384 (2)
Asia . . . . .	3	6,264 (3)	236 (3)	116 (3)	461 (3)
Oceania . . . . .	3	60,601 (1)	5,020 (3)	1,471 (3)	26,983 (3)
Total . . . . .	51	9,608,994 (35)	255,620 (41)	78,687 (41)	686,494 (40)

The most important branch of the activities of the societies is fire insurance, 6,840,720,000 G.F. (13) <sup>2</sup>; next comes life insurance, 2,615,117,000 G.F. (21), while all other branches, including accidents, livestock and hail insurance, cover only 153,067,000 G.F.

The total for the central mutual agricultural co-operative societies is considerably smaller than that of the co-operative insurance societies, as the following table shows.

TABLE 6

	No. of Societies Reporting.	Sum Insured or Reinsured.	Premiums Paid.	Claims Paid.	Total Assets.
		(In 1,000 of gold francs)			
Europe . . . . .	16	2,134,244 (9)	5,738 (9)	3,792 (10)	8,252 (9)
North America . . .	1	—	1,852 (1)	2,092 (1)	9,676 (1)
Africa . . . . .	1	507,605 (1)	3,529 (1)	2,530 (1)	—
Total . . . . .	18	2,641,849 (10)	11,119 (11)	8,414 (12)	17,928 (10)

Fire insurance covers 2,391,217,000 G.F. (6), or 90 per cent., hail occupying next place with 148,545,000 G.F., or 5.6 per cent.

<sup>1</sup> One gold *fr.* = 25.22 gold francs.

<sup>2</sup> Number of societies in parentheses.

The total sum insured by those co-operative and mutual societies which send information to the International Labour Office amounted at the end of 1934 to 12,250,753,000 G.F.

The information of the International Co-operative Alliance on the activities of the co-operative insurance societies for the year 1934 has not yet been completed.<sup>1</sup> In the following table the figures relating to 24 organisations in 13 countries are summarised in gold pounds.<sup>2</sup>

TABLE 7

TOTAL LIFE, FIRE, ACCIDENT, AND MISCELLANEOUS INSURANCE—  
INDIVIDUAL AND COLLECTIVE

<i>Totals.</i>		1933.	1934.	<i>Rate per Cent.</i>
No. of Insured Societies . . . . .	I.*	78,791	82,257	+ 6.91
	C.	116,482	118,075	+ 1.33
No. of Insured Persons . . . . .	I.	7,524,623	8,071,204	+ 10.09
	C.	5,722,258	5,981,448	+ 4.71
Amount Insured . . . . .		<i>Gold £.</i>	<i>Gold £.</i>	
	I.	472,617,521	486,704,754	+ 6.45
	C.	93,400,988	89,420,916	- 5.20
Premium Income . . . . .	I.	5,394,294	5,163,088	- 0.27
	C.	596,881	575,265	- 10.55
Claims Paid . . . . .	I.	2,223,740	2,232,251	+ 5.45
	C.	489,491	617,257	- 4.41

\* I = Individual ; C = Collective.

The above figures show that the activities of co-operative insurance are developing and that there has been a marked increase during 1934 in the number of individual and collective policy-holders.

The figures collected in our investigation give the follow-

<sup>1</sup> No figures have yet been received from Finland (4 organisations), India (2 organisations), Palestine, U.S.A. (6 organisations).

<sup>2</sup> See *Review of International Co-operation*, June, 1936, p. 226. It should again be noted that the conversion in gold exchanges results in distortion at the time of unstable exchanges such as at present.

ing totals of members insured by the main co-operative societies in different countries.

TABLE 8  
NUMBER OF MEMBERS INSURED IN :

	<i>Consumers' Societies.</i>	<i>Agricultural Societies.</i>	<i>Total.</i>
Africa, North . . . . .	—	15,000	15,000
Africa, South . . . . .	—	2,300	2,300
Algeria . . . . .	—	23,650	23,650
Argentina . . . . .	—	11,234	11,234
Australia . . . . .	—	—	—
Belgium . . . . .	670,000	248,540	918,540
Bulgaria . . . . .	132,252	245,104	377,356
Canada . . . . .	—	45,045	45,045
Czechoslovakia . . . . .	239,742	417,298	657,040
Denmark . . . . .	210,105	582,243	792,348
Estonia . . . . .	—	56,370	56,370
Finland . . . . .	289,968	350,907	640,875
France . . . . .	102,000	2,024,754	2,126,754
Germany . . . . .	3,119,341	447,483	3,566,824
Great Britain . . . . .	6,056,415	85,605	6,142,020
Holland . . . . .	467,211	240,477	707,688
Hungary . . . . .	27,956	200,000	227,956
India . . . . .	—	6,000	6,000
Italy . . . . .	—	35,000	35,000
Latvia . . . . .	—	114,012	114,012
Lithuania . . . . .	—	6,717	6,717
Luxemburg . . . . .	—	2,054	2,054
Norway . . . . .	34,000	—	34,000
Palestine . . . . .	3,217	6,000	9,217
Roumania . . . . .	1,652	—	1,652
Scotland . . . . .	45,000	—	45,000
Spain . . . . .	881	—	881
Sweden . . . . .	473,258	—	473,258
Switzerland . . . . .	23,000	255,066	278,066
U.S.A. . . . .	265,567	1,150,484	1,416,051
Yugoslavia . . . . .	—	488	488
	12,161,565	6,571,831	18,733,396



In conclusion: the last four tables show that there are over 20,000,000 policy-holders in the co-operative insurance societies all over the world with a sum of over one thousand millions of sterling insurance in force. This great co-operative insurance army deserves much more interest and attention than it has been given up to the present by both the co-operative movement and the insurance world.

## CHAPTER XII

### CONCLUSIONS

THE analysis of the principles of co-operative insurance and of the activities of co-operative insurance institutions leads to the following conclusions.

I. Co-operative insurance has struck deep roots all over the world and has been firmly established in thirty-five countries. The existence of numerous co-operative insurance societies has been fully justified by their activities and achievements. The present study shows that co-operative insurance institutions have originated because the working population in town and country has found neither generous nor just treatment at the hands of profit-making insurance companies. Popular urban insurance, subscribed predominantly by industrial assurance institutions, has been slow to improve. Notwithstanding the great efforts made by legislation and by some of the leading companies, its main defects—the legal complexity, the “ high pressure system ” of acquiring business, the high ratio of lapses, the maldistribution of surpluses, the high costs and expenses—have not yet been eliminated. The profit-making companies serving the rural population and subscribing agricultural insurance have not shown in their activities a very helpful attitude towards the satisfaction of the needs of their policy-holders. On the one hand, they have taken no pains to institute a proper insurance organisation for the needs of small farmers; on the other, when they have subscribed such insurance risks, they have done so at very high costs. In many countries the insurance companies dealing with agriculture have formed “ rings ” or “ pools ” and charged their policy-holders exorbitant rates. The majority of the non-profit-making co-operative and mutual

agricultural societies were established to supply the small farmer and the agricultural labourer with modern insurance facilities and to free them from the exploitation of profit-making insurance. It must not be overlooked that in some countries, such as Norway or Germany, the co-operative form of organisation was also used by landlords to cover the insurance needs of their agricultural enterprises, but co-operative societies of such a type are the exception rather than the rule.

2. The co-operative method possesses certain characteristics which diminish and partly eliminate the difficulties encountered by profit-making insurance when applied to popular insurance. Co-operative insurance societies, if they are built on local federated co-operative units (village or factory societies), have the great advantage of decreasing moral hazards and costs. Co-operative insurance diminishes considerably the risks covered, reduces the cost of operations, decreases considerably the number of lapses, offers the policy-holder fair treatment, reduces exploitation, increases safety and raises the moral standard of its members by developing the co-operative spirit, the sense of responsibility, and the habit of mutual aid and organisation.

The analysis of various insurance units which have to be covered by co-operative insurance leads to the conclusion that co-operative effort finds its highest expression in collective insurance. The future of co-operative insurance, especially in urban districts, lies in new and bold developments of collective insurance activities.

3. Co-operative insurance is of the greatest importance not only for the individual co-operator, but also for co-operative organisations. If the co-operative movement is to succeed in competition with the highly centralised and often monopolistic system of capitalist production and trade, it will have to extend the scope of its economic activities to all those branches of production and distribution, where it may encounter hostility or pressure from monopolistic producers. Co-operation must necessarily widen its economic interests and this will result in a parallel increase in its need for insurance. Further, the very nature

of co-operative organisation will prevent these varying economic activities being combined as closely as they are in the leading capitalist monopolistic organisations. At the most, integration of co-operative enterprise can be effected only by federal organisation—if the co-operative movement is to maintain its essentially democratic character of mass-control by the membership. But this reduces the possibility of using self-insurance as a reasonable economic device. The co-operative movement is, therefore, becoming more interested in its insurance operations and must pay more attention to the proper organisation of the insurance branch of the movement.

4. Co-operative insurance societies have been fulfilling the double task which has been placed upon them by the shortcomings and deficiency of profit-making insurance. In many countries the mere fact that a co-operative insurance society sprang up outside the ring of capitalist companies at once made a great difference to the population. The existence of a co-operative insurance organisation calls a halt to unlimited exploitation by the profit-making companies and makes the latter think twice when rates and conditions are considered. It is no exaggeration to say that the existence of co-operative insurance has considerably improved insurance conditions in general.<sup>1</sup>

But this indirect influence of co-operative insurance is supplemented by the direct benefits which its activities bring to the working population. Co-operative insurance has popularised insurance, as such, and has brought it into many households, especially in the country, where it would still remain unknown. In country districts it has been fulfilling the difficult task, already indicated by Raiffeisen seventy years ago, of bringing insurance to the doors of the poorest rural household. By doing so it has considerably strengthened the economic position of the small farmer; it has taken from his shoulders many risks of his household-enter-

<sup>1</sup> See Roscher, *op. cit.*, 258: "Even in the highest stages of civilisation, the competition of some mutual insurance companies is desirable to protect the insured from too high a rate of profit to the insurers."

prise, which are now covered by insurance, and has given him an opportunity to concentrate on his proper productive functions.

5. Another important achievement is that insurance services have been placed at the disposal of the population by co-operative societies at a cost lower than that of the ordinary insurance companies. Apart from paying lower premiums, the policy-holder of a co-operative insurance society receives bonuses and dividends, which would otherwise constitute the profits of the shareholders of capitalist insurance companies. Co-operative insurance, however, benefits not only the policy-holder as an individual: it accumulates funds which serve not only individual members but also the co-operative movement as a whole. It places a considerable portion of its funds at the disposal of co-operative financial institutions, which use them for granting loans to co-operative organisations and their members.

6. The activities of co-operative insurance result not only in material benefits for its membership. They have a great educational and organising value. It not only indemnifies policy-holders who are the victims of a loss, but teaches them to prevent the occurrence of many losses. It develops a network of medical institutions, resthouses, sanatoria, etc., where a member can receive proper attention in order to improve his health. These activities, which are of the greatest value to the membership, are also very important for the financial position of the society from the preventive aspect, because they diminish considerably the incidence of loss. In this way they decrease the cost of insurance and increase the accumulation of funds, which are used for the common good of the members.

Apart from its material and educational value, co-operative insurance is of the greatest moral significance. The difficulties of insurance lie in the considerable part played in it by the "moral hazard". Co-operative insurance goes far to extinguish the moral hazard by means of co-operative education and organisation. Each member lives and works under the eyes of his fellow-members; he knows that if his negligence brings about a loss—by fire, epidemic, accident

—the indemnification for this loss will be taken out of his *own* and out of *their* pockets. Under such circumstances co-operative insurance, especially for the rural population, develops in its members a high sense of duty and responsibility, and consideration for the interests and needs of their fellow members and neighbours. Because of this, co-operative insurance, probably more than any other form of co-operation, raises the moral standard of its membership.

7. Co-operative insurance societies, in collaboration with credit unions and co-operative banks, could considerably ameliorate the position of hundreds of thousands of working-class families who are struggling in the hands of money-lenders and usurers of all kinds. By investing their long-term funds in co-operative housing, trade and industry, co-operative insurance societies can play a great part in developing the activities of the co-operative movement, as a whole. The study of the structure of the working capital of different types of co-operative organisations shows that loan-capital, excluding saving deposits, represents over 46 per cent. of total resources, amounting to nearly 1,000 million sterling, belonging to co-operative organisations with over 70,000,000 members.<sup>1</sup> These figures indicate clearly the great use which the co-operative movement is making of outside funds and its need for the services of a well-established and highly developed co-operative financial system. Co-operative insurance societies should serve together with co-operative banks as the main foundations of such a system.

8. Co-operative insurance has its own difficulties and shortcomings. These must not be overlooked but must be corrected by diligent and persistent efforts.

Co-operative insurance societies formed by the wholesale societies as their subsidiaries are imitating to a great extent the actual working methods of capitalist insurance. They

<sup>1</sup> See my *Co-operative Banking*, p. 326. Another example of similar useful activity would be to finance the provision of railway season tickets repayable by instalments, so that hundreds of thousands of wage-earners might thereby save considerable sums on their travelling costs.

return to the insured a greater part of the surplus than ordinary insurance companies, but they do not differ much from the latter in their business methods. These societies operate through agents, and their management lies in the hands of paid officials. The participation of the insured in the management of the societies is very limited. On the other hand, the local co-operative insurance societies operate by proper co-operative methods. Members are enrolled by co-operative propaganda and enlightenment and are not lured in by exaggerated promises, as it is the frequent practice of some insurance companies. But the local societies, if they have not the backing of a strong federation or of a general reinsurance society, are exposed to all the dangers of an isolated local body, dangers which are especially serious in insurance.

The real solution of the problem of organisation lies, as in other spheres of co-operative activity, in the combination of the local and central institutions, in the establishment of a federated system in which all links of the chain keep their independence and responsibility towards the local members, all the units supporting and supplementing each other.

9. The uniformity of methods of organisation and activities demonstrates the possibility of building up a united co-operative insurance system. In some countries such a system may be established either by the formation of a central reinsurance society, which will consolidate the operations of all groups of co-operative insurance activities, or by close co-operation between existing central co-operative insurance societies, which operate simultaneously for different groups of co-operative organisations. The formation of National Co-operative Insurance Councils and Co-operative Auditing and Actuarial Unions would pave the way for further international action, for the establishment of an International Co-operative Reinsurance Society.

10. When investigating the sphere of insurance one can see clearly how important and acute is the problem of organising in one system all the non-profit-making co-operative, mutual and labour economic institutions. At present there is no connection between the mutual societies operating in

various fields of economic activities and the co-operative and trade union movements; they could, however, benefit considerably by mutual assistance and collaboration. It should be the task of co-operation, as the strongest and best organised group, to take the initiative for the establishment of a working alliance between all these organisations.

Co-operative insurance is especially appropriate for taking such an initiative in the field of non-profit-making insurance and for laying the foundation of a non-profit-making insurance system. It should start by subscribing reinsurance operations for the genuine mutual insurance societies, by giving them an opportunity to invest their funds in co-operative enterprises and securities, by accepting them as members of Auditing and Actuarial Unions and by admitting their representatives to the National Co-operative Insurance Councils.



## APPENDIX

### CHRONOLOGY OF CO-OPERATIVE INSURANCE INSTITUTIONS

A = Agricultural

C = Consumers

A 1812	Denmark	Mutual Live Stock Insurance Societies.
A 1863	Switzerland	Swiss Society of Agriculture (Accidents insurance).
C 1868	Great Britain	Co-operative Insurance Society.
A 1870	Belgium	Mutual Live Stock Insurance Societies.
C 1872	U.S.A.	The Workers' Mutual Fire Insurance Society.
A 1875	Switzerland	La Paragrêle Mutual Insurance Society (Hail).
A 1879	France	La Responsabilité (Accidents).
A 1880	Switzerland	Swiss Hail Insurance Society.
A	U.S.A.	Hail Insurance Mutual Societies.
A 1884	Canada	La Portage La Prairie Mutual Fire Insurance Company.
A 1888	France	Hail Insurance Mutual Societies.
A 1894	Argentine	Co-operative Hail and Accident Agricultural Insurance Society.
A 1895	Belgium	Hail Insurance Mutual Societies.
A	U.S.A.	National Association of Mutual Insurance Companies.
A 1897	Canada	The Wawanesa Mutual Insurance Company.
A 1898	Hungary	The Hungarian Mutual Animal Insurance Society.
A	Denmark	Accident Insurance Society for Dairies and Agriculture.
A 1899	Hungary	The Farmers' Co-operative Insurance Society "Gazdak."
A 1900	Sweden	Mutual Hail Insurance Societies.
C	France	"La Solidarité" Workers' Fire Insurance.
C 1902	Holland	Central Bank for Employers' Risks Insurance.
A	Great Britain	Cornish Mutual Assurance Company, Ltd.
A 1903	Denmark	The Danish Co-operative Storm Insurance Society.
C		Workers' Life Insurance Co-op. Society.

C	Bulgaria	The Teachers' Mutual Co-operative Insurance Society.
C	Denmark	Andels Anstalten Tryg Co-operative Life Assurance Society.
A 1904	Algeria	The Mutual Algerian Agricultural Insurance Society.
C	Spain	La Mutualidad Obiera. [Bank.
C	Holland	The Central Workers' Insurance & Saving
A 1905	France	La Sartoise Accident Insurance Society.
A	France	Union N.M. Agricultural.
A	Luxemburg	Union of Farmers' Mutual Insurance Societies (Livestock).
C	Bulgaria	Bulgarian Civil Service Co-operative Insurance Society.
C	Germany	Pension Office of the Central Union of the German Consumers' Societies.
A 1906	France	Central Office of Farmers' Mutual Insurance Societies (Fire).
C 1907	Belgium	Social Welfare (La Prévoyance Sociale).
A	Morocco	Central Mutual Reinsurance Society of the Agricultural Mutual (Fire) Insurance Societies of North Africa.
C 1908	Sweden	Samarbete General Co-operative Insurance Society.
A	France	Central Office of Farmers' Mutual Insurance Societies (Livestock).
A	Great Britain	The Agricultural General Co-operative Insurance Society, Ltd.
A	Switzerland	Union of German-Swiss Bee-Friends.
A 1909	Denmark	The Farmers' Parish Union Accident Society.
A	Holland	The Horticultural Mutual Insurance Society.
C	Holland	Co-operative Society "Central Administration".
C	Switzerland	Insurance Office of the Union of Swiss Consumers' Societies.
A 1910	Great Britain	The National Farmers' Union Mutual Insurance Society.
A	Holland	The Central Agricultural Mutual Insurance Society.
A	Bulgaria	Central Co-operative Bank (Insurance Section).
C	Finland	Tulenvara Co-operative Insurance Society.
A 1911	Norway	Norwegian Society for Mutual Insurance against Forest Fires.

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A	1912	France	National Office for Reinsurance of Agricultural Mutual Insurance Societies.
A		Tunis	The Regional Mutual Insurance Society.
A		Bulgaria	Central Co-operative Bank (Livestock Insurance Section).
C		Scotland	Scottish Co-operative Friendly Society.
C		Germany	People's Welfare (Volksfürsorge).
A	1913	Denmark	Union of Co-operative Insurance Societies.
A	1914	Czechoslovakia	The Czech Federation of Insurance and Reinsurance of Animals.
C		Sweden	"Folket" Co-operative Life Insurance Sty.
C	1915	Holland	Marine Risks Mutual Society (Zee Risico).
A	1917	Canada	Saskatchewan Municipal Hail Insurance Association.
A		Spain	Mutual Hail Insurance Society.
A		Finland	The "Vakava" Reinsurance Society of Fire Insurance Societies.
A		Finland	Farmers' Mutual Insurance Co. "Aura".
C		U.S.S.R.	Centrosojus (Insurance Department).
A		U.S.S.R.	Popular Bank of Moscow (Insurance Department).
C		Switzerland	People's Welfare (Volksfürsorge) Co-operative Life Assurance Society.
A	1918	U.S.S.R.	Central Association of Flax Growers (Insurance Department).
A		U.S.S.R.	All-Russian Co-operative Insurance Union.
A		Australia	The Farmers' and Graziers' Co-operative Grain Insurance and Agency Co., Ltd.
A		Yugoslavia	Central Co-operative Cattle Insurance Society.
C	1919	Finland	"Elenvara" Staff Insurance Fund of Co-operative Consumers' Societies.
A		Australia	The Co-operative Insurance Company of Australia (The C.I.C.).
A		Denmark	Andels Pensionsforeningen.
A		U.S.S.R.	All Siberian Co-operative Insurance Sty.
A		Palestine	Hachklait Cattle Co-operative Insurance Society.
A		Spain	Marine Social Institute.
C		Czechoslovakia	Czechoslovakia General Co-operative Insurance Society.
C		Finland	"Kansa" (Fire).
C		Finland	Tyoäventurvä (reorganised in 1925 in "Oma").

A	Canada	Hail Insurance Board of Alberta.
A 1920	Australia	The Producers' and Citizens' Co-operative Assurance Company of Australia.
A	Germany	Agricultural Insurance Mutual Society, Grenswald (Strikes).
A	Palestine	Livestock Insurance Society "Hachaklait."
C	Finland	"Tulenturva" Co-operative Insurance Sty.
A	Finland	Mutual Insurance Society for the Co-operative Dairies' Associations.
C	Finland	"Oma" Insurance Office for Workers in Co-operative Consumers' Societies.
A 1922	U.S.S.R.	All Russian Co-operative Insurance Union.
C	Norway	Samvirke Co-operative Insurance Sty. (Fire).
A	U.S.S.R.	The Central Insurance Section of Centrosjus (Strachsectia).
A	Ukraine	Insurance Department of the C.W.S.
A	Ukraine	Ukrainian Co-operative Insurance Society.
A	Germany	Raiffeisen Life Insurance Bank.
A		Regeno Life Insurance Bank.
A		Raiffeisen General Insurance Society.
A		Regeno Insurance Society.
A	Latvia	The Central Union for Co-operative Insurance.
A	U.S.A.	The State Farm Mutual Auto Insurance Co., Bloomington.
C	Hungary	"Corvinia" Co-operative Insurance Sty.
C	Bulgaria	Proprietor (Sobstrenik) Fire Insurance.
C		Concord (Saglassie) Life Assurance.
C		Co-operative Military Insurance Office.
C		"Moussallah" (Life).
A 1923	Belgium	The Insurance Society of the Belgian Farmers' Union (Boerenbond).
A	Estonia	Central Co-operative Insurance Sty.
A	Great Britain	Fishing Vessels Co-operative Insurance Society.
A	Ukraine	All Ukrainian Insurance Co-operative Union.
A	Scotland	Scottish Beekeepers' Association.
A	France	National Office for Reinsurance of Agricultural Mutual Insurance Societies (Hail).
C	France	Equalisation Fund for W.P.C.S.
C	Finland	Pohja Co-operative Insurance Society (Life).

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C	Finland	Kansa Life Assurance Society.
A 1924	France	Central Office of Farmers' Mutual Insurance Societies (Accident).
C	Bulgaria	Sadruga Co-operative Life Assurance.
C	Roumania	Vulturul General Co-operative Insurance.
C	U.S.A.	The Union Co-operative Insurance Association.
A 1925	Lithuania	Central Insurance Union "Kooperacya".
A	France	National Office for Reinsurance of Agricultural Mutual Insurance Societies (Accidents).
A	France	Central Office for Mutual Agricultural Insurance.
A	France	Central Office for Farmers' Mutual Insurance Societies (Hail).
C	U.S.A.	The Union Labour Life Insurance Company.
A 1926	U.S.A.	The Farm Bureau Mutual Automobile Insurance Company, Columbus.
A	Italy	Mutual Insurance Society of Co-operative Organisations.
C	Palestine	"Hassneh" Co-operative Life Insurance.
C	Germany	"Self-Help" (Eigenhilfe) Co-operative Insurance Society.
A 1927	Italy	The Central Co-operative Insurance Society.
A	Brazil	Provident Society of Fishermen (Death).
A	Finland	The "Kerki" Reinsurance Society of the Livestock Insurance Societies.
A 1929	South Africa	The Farmers' Hail Insurance Society.
A	France	Mutual Insurance Federation.
C	Denmark	Co-operative Insurance Society.
C	Holland	The Federation of Trade Mutuals for Sickness Insurance.
A 1930	Italy	National Fascist Federation of Livestock Mutual Insurance Societies.
A	India	The Bombay Co-operative Insurance Society, Ltd.
A	India	The Bengal Co-operative Insurance Society, Ltd.
A	Norway	Samvirke Co-operative Life Assurance Society.
A 1932	Germany	Regeno Raiffeisen Life Insurance Bank.
A		Regeno Raiffeisen General Insurance Society.
A	India	The South India Co-operative Insurance Society, Ltd.

A		The Travancore Co-operative Insurance Society, Ltd.
A 1933	India	The Indore Co-operative Insurance Society, Ltd.
A 1934	Germany	German Farmers' General Service Insurance Society.
C		Social Welfare General Insurance Ltd.
A		German Farmers' Livestock Insurance Company.
C	Spain	Social Welfare (La Prévision Social).
A		National Maritime Insurance Society.
C	U.S.A.	Co-operative Life Association.
A 1935	Bulgaria	The Agricultural and Co-operative Bank of Bulgaria (Insurance Sections).
C	Czechoslovakia	" Vorsorge " Co-operative Insurance Sty.
A	Finland	Mutual Life Insurance Company, Aura.
C	U.S.A.	" Cuna " Co-operative Insurance Society.
A	Estonia	Reinsurance Office of Insurance Co-operative Societies.

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The following abbreviations are used throughout :

Agricultural = A.	Farmers' = F.	Mutual = M.	
Bank = B.	General = G.	Reinsurance = R.	
Co-operative = C.	Insurance = I.	Society = S.	
Department = D.	Life = L.	Union = U.	

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