

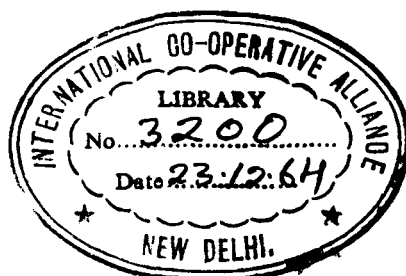
REPORT ON I. C. A. EDUCATION CENTRE
REGIONAL SEMINAR ON CO-OPERATIVE
INSURANCE HELD IN KUALA LUMPUR

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I. C. A. NEW DELHI

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REPORT ON
INTERNATIONAL CO-OPERATIVE ALLIANCE
EDUCATION CENTRE
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INTRODUCTION

A Regional Seminar on Co-operative Insurance was organized by the International Co-operative Alliance, Education Centre, in Kuala Lumpur between 3rd - 15th September, 1963. Co-Sponsors of the Seminar were Folksam, the Swedish Co-operative Insurance Society, the Malayan Co-operative Insurance Society and the Co-operative Union of Malaya. The I.C.A. was represented in the Seminar by Mr. M. Radetzki, Director of the I.C.A. Education Centre. Folksam had made available three insurance experts: Mr. S. Rimmerfeldt, Mr. H. Bucht and Mr. D. Landin, who introduced a number of subjects. Mr. N.A. Kularajah, General Manager of the M.C.I.S. and Mr. G.S. Dass from the Department of Co-operative Development, Federation of Malaya, also made several introductions.

The Inauguration was chaired by Enche Yahya bin Mohamed Sani, Chairman of the Malayan Co-operative Insurance Society Ltd. The Inauguration of the Seminar was performed by the Hon'ble Enche Mohamed Khir Johari, Minister of Agriculture and Co-operative, Federation of Malaya. The Seminar was closed by Y.M. Raja Zainal, Commissioner of Co-operative Development, Federation of Malaya.

PLACE OF INSURANCE CO-OPERATION IN THE SOCIETY

At present, co-operative insurance does not exist in all the countries of South East Asia. In India, there are four co-operative insurance societies and all of them have been working for several years already. In Malaya, the Malayan Co-operative Insurance Society is the leading insurance organization in the life field in the country and has recently also started non-life business. The Co-operative Insurance Society of Pakistan with Head Office in Lahore was established in 1949 and carries on all kinds of business. The East Pakistan Co-operative Insurance Society of Dacca was started only in 1961. In Japan there is a net of small mutual insurance organizations affiliated to the National Mutual-Relief Insurance Federation of Agricultural Cooperatives or the National Federation of Insurance Co-operatives for Labourers and Consumers. In the Phillipines, the Central Co-operative Exchange which is the national co-operative marketing federation, intends to start co-operative insurance activities in the near future. No important insurance co-operation activities seem to exist in other countries of the region.

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When organizing a co-operative insurance society, a number of problems have to be faced. One of the very important difficulties is the inadequacy of legal provisions. This usually depends on the fact that no insurance co-operative activities have previously been performed in the country and thus there are no regulations regarding the conduct of such business. In some countries, the activities of the co-operative insurance societies have to agree both with the rules for co-operative societies in general, and with the rules applicable to ordinary insurance companies. Thus the liberty of the insurance co-operative organization becomes very restricted.

In many countries of South East Asia, there are provisions that an insurance organization must start with a considerable share capital, a large part of which has to be deposited in government securities. It may be difficult for the newly established society to satisfy these rules.

Lack of trained personnel is another problem in the creation or the extension of business of an already existing insurance co-operative society. Often it is not advisable to recruit managers and field staff from private insurance companies. In many cases, it seems to be better to train devoted co-operators to assume responsible positions in the organizations.

The International Co-operative Alliance has certain possibilities to assist newly created co-operative insurance societies through the Reinsurance Bureau and the Development Bureau (which was planned but not established when the seminar was held) of the Insurance Committee. Individual co-operative insurance organizations both in Europe and in Asia are also prepared to render assistance to some extent.

A factor contributing to the success of an insurance co-operative society which cannot be overstressed, is the link which has to be created between the co-operative insurance society and other sectors of the co-operative movement. Without development of a close collaboration with the co-operative movement, the insurance society will have great difficulties in developing its strength and finding its place and profile in the competition with private insurance organizations. This has been the experience of co-operative insurance managers both in Europe and in South East Asia.

There are many ways to establish this close link with the co-operative movement. The officers of the co-operative insurance society may make it a rule to attend meetings of other co-operatives. The directors of the co-operative insurance society may be selected from among leading co-operators in the country. Although the insurance society should do business also outside the co-operative field in order to expand and reach the optimum size, its main efforts ought to be directed towards coverage of insurance needs within the co-operative movement. Through its investment policy, the co-operative insurance society might also assist in the development of the co-operative movement.

In its activities, the co-operative insurance society should try to cater to the needs of other groups in the society, such as the Youth Movement or the Trade Union Movement. In Sweden, very close links have been established between the co-operative insurance society and the Trade Unions. Thus 1/3 of the directors of Folksam, the Swedish Co-operative Insurance Society, are elected by the Trade Union Federation.

In some of the South East Asian countries, part of the insurance business has been nationalised. In India, life-insurance is operated by the Government. In Pakistan, there is a provision that the insurance organizations should reinsure 30 % of their general business with the Pakistan Insurance Corporation. In India, varying percentages of the different classes of general business have to be reinsured with the India Reinsurance Corporation and the Indian Guarantee.

Government assistance to some extent is certainly helpful in the insurance business. The Government might provide various facilities such as research, health control, statistics etc. In the cases of new societies, it is essential that Government prepares a suitable legal frame. In some cases, direct financial assistance would facilitate the creation of insurance co-operative societies. Such financial assistance should preferably be given by Government as a loan rather than as a contribution to share capital, in order to secure independence and maintain the co-operative character of the insurance society.

In insurance fields which have been traditionally considered as non-commercial, such as crop, cattle and fishermen's insurance, the government might assist even more. The government could for example, give additional financial assistance, cover unusually heavy losses, or help the policy holders by paying part of the premium. In this way, the government would promote the establishment of insurance forms which may not be economical in the business sense, but desirable from the social point of view.

OPEN MEMBERSHIP AND SURPLUS DISTRIBUTION

An essential feature of any co-operative society is open membership. Naturally, membership can be limited according to the geographical area of action of the society or the types of business in which it is involved. The meaning of open membership mainly refers to the fact that no political nor religious bars should prevent prospective members to join the society. Anybody should thus be able to become a member in the society, to participate in its activities and to guide its development through the democratic set-up.

There is a distinct difference between a joint stock company which is an association of capital owners for the sake of profit and a co-operative society which is an association of people who need a service of a certain kind. The co-operative society has a non-profit motive.

It is natural that the policy holders, who utilize the services of the co-operative insurance society, should also be the members, and have an influential voice in the activities of the society. To be able to start business, the co-operative insurance society has to acquire capital. This capital can be contributed either by policy holders or by others, who are interested in the activities of a co-operative insurance society.

It is natural that the subscribers of share capital or guarantee funds should get some reward for the money which they have supplied. Interest must be paid to the capital owners, but to prevent the profit motive from entering the organization, this interest ought to be limited and not exceed to any high extent long term bank savings interest. In an established co-operative insurance society, a relatively small share of the yearly surplus should be distributed as interest on capital. The surplus has been created as a result of excess payments by policy holders and should in accordance with co-operative principles when possible be re-distributed to the customers as patronage dividend or in other ways be used for purposes, which correspond with the interest of its members.

PARLIAMENTARY STRUCTURE

The rules regarding membership and member participation vary in the different countries according to local conditions. In some, the capital owners have a substantial influence, in others, the original paid-up guarantee capital has been paid back and the influence rests with policy holders. In the Co-operative Insurance Society of Pakistan, share-holders participate in the general meeting and elect the directors, but by a legal provision, policy holders are entitled to elect some additional directors to the board.

In some cases, certain members have more than one vote. Usually, the co-operative principle one member one vote is followed, irrespective of financial considerations.

In large societies with many members, direct democracy will become less effective. All members will not be able to attend the general meeting and thus will not be able to participate actively in the development of the society. In such cases, indirect democracy can prove to be an effective solution to maintain member influences. Through the subsidiary bodies members will elect delegates who will represent them in the general body meeting.

The parliamentary system of the Folksam Co-operative Insurance Society of Sweden, which was chosen as an example at the seminar, gives an interesting example of indirect democracy. A large part of the Swedish population is affiliated to the Consumer's Co-operative movement and to the Trade Union movement. The Folksam Board of Directors is elected by the general assemblies of the Consumer's Co-operative movement and the Trade Union movement. Thus all the members in these two nation-wide organizations will indirectly participate in the board of Folksam. It is clearly stated that the directors of Folksam should primarily consider themselves as representatives of policy holders and not as representatives of the Trade Union or Consumer's Co-operative movement respectively.

It is essential to point out that while the broad policy matters should be dealt with by the board of directors, all practical business decisions should be the responsibility of the paid management. This is a pre-requisite for fast decisions and for the efficient running of co-operative insurance societies.

GROUP INSURANCE

Folksam in Sweden has operated group insurance schemes in many fields since a comparatively long time. The most important types of group insurance provided by Folksam are (1) group accident insurance (2) group life insurance and (3) group property insurance.

There are several advantages in doing group insurance business. One of them is that selling is much facilitated as each insurance policy runs at a much higher value. In Sweden, most of the group insurance has been arranged in collaboration with the Consumer's Co-operative movement and the Trade Union movement, whereby members of the Consumer's Co-operative Society or members of the local Trade Union have been covered under one single policy. Similarly, the properties of the Trade Unions or co-operatives have been insured under one single policy. Also the administrative costs are substantially lower in a group insurance scheme.

It is natural to assume that group insurance, particularly in the life field, would compete to a certain extent with individual insurance. Experiences from Sweden indicate that no severe effects of this competition can be observed. It is, however, not certain that the experiences from a highly industrialised country like Sweden can be directly applied on the South East Asian region.

Group insurance will probably prove to be a good solution in many instances for the poorer stratas of society in South East Asia. These population groups would lack the initiative and finances to afford individual life insurance.

Group insurance in the life field is already in existence in Malaya. Group insurance schemes in the non-life field have also been introduced in India and Pakistan.

CROP INSURANCE

In crop insurance, the hazards can be divided into two types, economic and natural. The economic arise from price fluctuations in the market, and result in lower income for the farmer. In some countries, the Government has tried to fix the prices to avoid the problems in connection with price fluctuation on agricultural produce. No insurance has been tried in South East Asia to cover the loss of the farmers due to price fluctuation.

The natural hazards result in a lower yield for the farmers. There are a number of causes for such low yields. Among the most severe ones, the following can be mentioned.

Floods, droughts, windstorms, locusts and other insects, high tides in certain areas and volcanic eruptions.

In Japan, which is the most experienced country in crop insurance in South East Asia, losses due to natural hazards are never fully covered. The farmers will be benefited by the insurance only in cases where their yields are less than 70 % of normal. Government decides on what should be considered normal yields.

In India, the Union Co-operative Insurance has since a couple of years, started a crop insurance scheme. Rates are at about 3.5 %. In the Phillippines, Pakistan and Malaya, there are no crop insurance schemes in existence.

When crop insurance is started, it is advantageous that all major crops grown in the area be included in the insurance scheme. In this way, the insurance organization will get a seasonal spread, and as a result, risks will be spread in time. Also, if all major crops are included, there will be no inducement for the farmers to concentrate on growing crops which can be covered by insurance.

It is felt that legal compulsion for crop insurance should be avoided. To promote the idea of crop insurance, an indirect compulsion might be used. Co-operative insurance societies might frame a rule by which only those farmers who have insured their crops, will be eligible to receive loans from the co-operative banks.

To start crop insurance schemes, finances and other facilities are needed. Governments could assist the co-operative insurance societies in the implementation of crop insurance by giving assistance in the form of statistics and research. When abnormal losses occur, the Government might also help in the coverage of these. Where the farming population lives in misery, the Government can also consider to help in the payment of premiums.

CATTLE INSURANCE

There seems to be less interest in the region in cattle insurance than in crop insurance. The Union Co-operative Insurance Society in India is active in this field and insures mainly bullocks, buffalos and horses. The insured value seldom exceeds 60 - 70 %. One of the problems in the field of cattle insurance is the identification of the individual animals. In the scheme carried out by the Union Co-operative Insurance, veterinary certificates are required for each animal. All animals belonging to one single owner must be insured in the Union Co-operative Insurance Scheme.

Also in cattle insurance, Government assistance might be given on similar lines as in crop insurance. In addition, the Government might provide veterinary facilities and perform research on the illnesses of animals.

INSURANCE FOR FISHERMEN

All along the coasts of South East Asia, there are great numbers of fishermen's communities. The fishermen usually belong to the economically poorer classes of the society. In many cases, they are exploited by middlemen and have a very low standard of living. In recent times, co-operative organizations have started to emerge among the fishermen, to cater to their economic needs. Thus co-operative fish marketing societies have been organized. Mechanized boats are often not within economic reach of individual fishermen. Such boats have started to appear in the various countries, and are sometimes owned by small groups of fishermen, on co-operative basis. Clusters of villages with fishing population have united their efforts to create fish processing or ice producing factories on co-operative lines.

Co-operative insurance for fishermen should, wherever possible, work through existing fishermen's co-operative organizations. This will make it easier for co-operative insurance to gain a foothold among the fishing population, which is not highly educated and often even illiterate.

Insurance for fishermen can include several aspects such as life, boats, gear, catch and the co-operative processing and ice producing plants. The average value of mechanized boats seems to be around 6,000 Indian Rs. in the South East Asian region. In Sweden, where co-operative insurance for fishermen has existed for a considerable time, the business is usually done by local societies of a limited size. As a rule, they do not insure the full value, and the rates for the boats vary between 0.5 % - 5 %. The Union Co-operative Insurance of India carries on business in the field of fishermen's insurance. The rates for boats vary between 0.75 % and 2.5 %. In the beginning stages, only total losses were insured, while now, also partial losses can be insured.

In the insurance of boats and gear, it is necessary to re-insure to a high extent. Risks are very uneven, and heavy losses may occasionally occur, due to weather conditions and other hazards. In India on one occasion, 250 boats were lost during 48 hours. This stresses the advantages of large scale operations both financially and geographically, so that the risks can be better spread. It seems as if a nation-wide insurance organization would be preferable in the South East Asian context. Alternatively, local societies might build up a strong federal organization to which they would be affiliated and which would help them to even out the risks. In the field of fishermen's insurance, Government assistance would be desirable in similar forms as in crop insurance. In addition, the Government might also control the seaworthiness of boats, and in this way save lives and diminish financial risks for the co-operative insurance organizations.

ECONOMIC SIZE

Among the existing insurance organizations in the world, we will find giants with business spread all over the world, with profitable results, but also very small organizations operating in a geographically limited area, but giving good and economic service to their customers.

The small cattle insurance organizations in Scandinavia show the advantages of small size. In an insurance co-operative society with few members, there will be a mutual knowledge between the members and thus they can inter-check each other. The results will be a lower claims ratio and also lower premiums. The small society usually does not have any full time employees. One of the members administrates the society on a part-time basis. Thus administrative costs can be kept very low. As a result, the operations will be economically competitive.

But on the other hand, there are a number of important advantages accruing from large size. It is necessary to have a substantial business to be able to insure large and expensive objects like aircraft, ships and factories. Large size adds to the competitive strength in the market. This is a pre-

requisite for initiative and action. One of the objects of insurance co-operative societies is to introduce new insurance forms for the benefit of the community. The competitive strength makes it possible for the large insurance co-operative society to introduce such novelties, perhaps against the wishes of its competitors.

A modern trend in insurance is mechanization of a number of processes. Only a large insurance organization can afford the time-saving but expensive electronic equipment which accelerates the routines and makes the operations cheaper. A small insurance enterprise will usually have to concentrate its business to a certain type of insurance; size is necessary in order to give diversified service to the customers. Also in the internal structure, there is a certain advantage of large size. The large organizations will be able to offer promotional facilities to their able employees and also will be in a better position to attract new employees.

In the South East Asian region, legal regulations usually force the new insurance organizations to start with a considerable capital. Therefore it is usually not possible to create small insurance organizations in the region. In India, for example, the initial capital of an insurance organization must be 400,000 Rs., a large part of which has to be deposited in Government securities. The trend on the whole in South East Asia seems to be towards larger and larger insurance organizations. This may be achieved both by expansion of business and by amalgamation or common management between different organizations.

RECRUITMENT, ORGANIZATION & EDUCATION

There is a general feeling in the countries of South East Asia of a lack of personnel with knowledge in the insurance field. Many of the insurance organizations in South East Asia have to recruit part of their staff from outside the region or else send their young executives for further training in Europe or the U.S.A. Recruitment to the co-operative insurance organizations seems to be an important problem.

When employing personnel in a co-operative insurance organization, it is not sufficient to have persons with a technical skill. It is also necessary that the employees are devoted co-operators so that they will be able to attend to the development of contacts with other co-operative sectors. In their recruitment policy, co-operative insurance organizations usually have to choose between co-operators who have to be developed into insurance men, or insurance technicians who have to be taught to understand co-operation. This is not always an easy task.

The internal organization of a co-operative insurance society will primarily depend on its size. Usually, at the early stages, when the society is relatively limited in size, line organization is adapted. With time and growth, other types of organizational structure have to be evolved. It is essential to build into the organization a system of promotion, whereby the most efficient staff will get an opportunity for more responsibility and better payment.

In the work, the young personnel should have a chance of inwork training whereby their abilities in various fields will be developed. The education of employees should consist not only of insurance knowledge, but also of co-operation and other social subjects. Many organizations have developed a system of internal education consisting of courses, seminar, case studies and correspondence courses. An efficient measure to develop leaders in the society is rotating of the managerial staff. By this the executives will thoroughly learn the different aspects of their organization. It is also essential to give an opportunity to the higher executives to study other insurance organizations, both in the home country and abroad.

In the recruitment of agents a careful selection has to be made. The agents should be trained carefully so as to be able to face various situations in their field work. Sufficient reward should be given to the agents for efficient selling.

It is felt that in the conditions prevailing in South East Asia the same agents should devote themselves both to life and non-life business. Similarly, the home-office organization needs not be split up but ought to form one single unit covering both types of insurances.

Although thorough guidance and supervision of the field force is expensive, it is likely to result in higher sales and better morale among the agents. The supervision can be implemented inter alia by agents' meetings and study-courses, where field problems are discussed.

The co-operative insurance society also has to attend to the problems of member education. Particularly when crop and cattle insurance are to be introduced in an area where literacy is not very high, an intensive education campaign may prove necessary. The co-operative insurance officers may attend meetings of the agricultural co-operative societies and explain the new insurance forms, they may use pamphlets, or try to reach the farmers by contacts through the primary school system.

CAPITAL AND INVESTMENT

To start its activities, an insurance organization needs capital. This can be supplied in the form of share capital in the case of limited stock companies or as a guarantee fund in the case of mutual companies. It is a common practice that the guarantee fund is paid back to the original founders once the business has been established and reserves created.

With increasing business it is necessary for the insurance organization to create reserves of different kinds to be able to face financial shocks which may appear in the course of the business. Reserves can be divided in two main categories. (1) Those belonging to the capital owners of the organization, e.g. legal reserve, catastrophe reserve, equalization fund etc. These reserves have been built up from surpluses of the operations of the insurance organization.

(2) Those belonging to the clients of the insurance organization, e.g. funds created for unsettled claims, or funds consisting of premium income for future periods. Also such reserves can contribute substantially to the capital needs of an insurance organization.

In a co-operative society the policy holders are as a rule also the owners of the organization. Therefore the distinction between the two types of reserves may not be very clear in a co-operative insurance society.

Any insurance organization, while investing its funds must take several aspects into consideration: (1) security, real and nominal, (2) yield, (3) liquidity. To satisfy these requirements, the insurance organization has to spread its investments into various fields. The most usual types of investment of insurance organizations are: real estate, mortgage, shares and government securities.

A co-operative insurance organization must, besides the above considerations also take into account the social aspect: to what extent will its investment favour further development of the co-operative movement. Naturally, the co-operative insurance society must primarily bear in mind the interests of the policy holders, but wherever investment can be made on equally advantageous terms in both the co-operative and private field, the co-operative sector should be chosen.

The Malayan Co-operative Insurance Society works in very close collaboration with a number of co-operative societies of different types. Most of the investments of the M.C.I.S. is made in these societies. In addition, policy holders can in certain cases obtain loans on favourable terms for house building. Also in India and Pakistan there is a tendency to invest a large portion within the co-operative field.

RE-INSURANCE

The insurance company may sometimes find itself in a situation where claims are so large that it might be difficult to cover them out of its own funds. This is particularly the case for a small insurance organization. To avoid the risks of bankruptcy, insurance organizations all over the world have developed a re-insurance system between themselves, whereby all large risks are distributed between a number of insurance companies in different countries.

There are several re-insurance forms suitable for different kinds of risks:

1) Surplus re-insurance, meaning that individual large insurance policies are re-insured to a certain percentage, with other companies. When a claim is made on the re-insured policy, the re-insured percentage has to be paid by the re-insurer.

2) Stop loss re-insurance is a suitable form where there are many policies of limited amount, which are related to each other. A typical example is crop insurance in a geographically limited area. Due to weather conditions all the policy holders in the area may simultaneously make claims on the insurance company. Stop loss insurance means that the insurance company which has signed the policies will only cover claims up to a certain total amount, while claims above this amount will be covered by the re-insurer.

3) Excess of loss re-insurance is suitable in cases where there are many similar policies, and claims are usually small, but can reach very high levels. An example is motor vehicle 3rd party insurance. In this case, excess of loss re-insurance protects the insurance company in cases where the claim for a single policy exceeds a certain amount.

Re-insurance is a business done on world scale. There is a world wide tendency to re-insure bad policies to a higher extent than good. Lack of knowledge about local conditions may make it difficult for an insurance organization to accept or reject a certain suggestion for re-insurance. In many countries there are brokers of re-insurance, who arrange the deal between buyer and seller of re-insurance.

The I.C.A. Reinsurance Bureau is neither a company nor a broker, but serves as an adviser in order to build up a sound co-operative re-insurance all over the World. The Bureau tries to arrange re-insurance within the co-operative insurance family, and in a few cases outside the co-operative circle. The premium exchange of the Bureau at present amounts to about £ 3,000,000/-.

PREMIUM RATE DETERMINATION

On calculating the premium, the insurance organization must include in the amount both administrative costs and the costs in connection with payment of claims. To be able to determine the proper premium amount, the risks have to be measurable. In the determination of premium rates, statistics of previous experiences are very important. It is essential for an insurance organization to keep a record of earlier developments.

Usually it is possible to sub-divide policy holders into groups according to varying risks in connection with the determination of rates. Thus, for example, in life insurance, policy holders are divided into age groups. The younger policy holders would thus have to pay lower premium as the probability of their death is lower than in the older age group.

CONCLUSION

It was unanimously agreed to thank the I.C.A. Education Centre for organizing the Seminar and to thank the Folksam for providing a panel of experts. At the same time the delegates wanted to express their gratitude to the Malayan Co-operative Insurance Society and to other co-operative organizations in Malaya for acting so generously in the capacity of hosts to the Seminar.