

I.C.A. SYMPOSIUM
ON CO-OPERATIVE INSURANCE

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SYMPOSIUM

on

CO-OPERATIVE INSURANCE

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INTERNATIONAL CO-OPERATIVE ALLIANCE

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Report on Cooperative Insurance Symposium

(4th and 5th March, 1961)

A Symposium on Cooperative Insurance was organised by the ICA Education Centre on the 4th and 5th March, 1961. About 19 persons participated; the participants came from the Planning Commission and the Ministry of Food & Agriculture, Government of India, some General Insurance Firms and a few Cooperative Organisations. The programme included two talks by Mr. Harald Bucht of Folksam, Sweden, on Cooperative Insurance and Social Insurance Benefits in Sweden. This was followed by a discussion in which Mr. S. N. Vaidya and Mr. D. N. Desai made brief presentations of Life Insurance in India and the Union Cooperative Insurance Society respectively. The second day was mainly devoted to Crop and Cattle Insurance. Dr. G. R. Seth, Director of Statistics, Indian Council of Agricultural Research, introduced the subject.

This report is divided into two parts. The first part consists of a paper on Folksam and its history and Mr. Desai's presentation of the Union Cooperative Insurance Society. The second part deals with Crop and Cattle Insurance.

PART I

In his first lecture Mr. Bucht dealt with the history of insurance and with Folksam, a large Swedish Cooperative Insurance organisation. Included as part 1 of this report is an abbreviated version of a paper outlining the main features of the history and working of Folksam. The paper was originally prepared by Mr. Seved Apelqvist, the General Manager of Folksam. The ICA Education Centre will be pleased to supply additional information about Folksam upon request.

Folksam - The Cooperative Insurance Movement in Sweden.

The Congress of the Swedish Cooperative Union & Wholesale Society decided in 1905 to establish a fire insurance company, the statutes of which were adopted one year later. Since no capital could be assigned at that time, the authorities asked that at least two million kronor should be signed in insurance premiums before any activity was started. A proclamation with a roll-call was issued, and the men, who later became the first representatives of the cooperative insurance company, started to collect signatures on the list.

An insurance magazine made an almost grotesque misjudgement at that time when it said, "The year 1908 shows an attempt to sharpen the competition between the companies... As a considerably minor event... can we note... the establishment of the Cooperative Insurance founded by the cooperative of workers".

The first constituent assembly of the Mutual Fire Insurance Cooperative, later renamed Cooperative Insurance, was held on May 10, 1908. At that time the capital of this cooperative was more than double the minimum capital asked by the authorities. More than four million kronor were signed in insurance premiums.

The cooperators had a purposeful will and clear vision, which was the most important pre-requisite for the future. Their

proclamation read: "Cooperative Insurance will, already from the beginning, act as a regulator of premiums and has decided in its statute that the members have the right, after the establishment of necessary funds, to a further reduction of their premiums according to the ensued gains of the preceding year." Of course, it took a long time before the Cooperative Insurance could reach the economic strength and striking power, which has allowed it to make an effective contribution to the formation of prices.

We know today that the pioneers' goal was not an unrealistic Utopia. The goal has materialized in a way which has had considerable influence on the Swedish insurance.

An insurance company, which concentrated to offer insurance to the small income receivers of the country, was highly necessary in the beginning of the century. The previous combination of bureaucratic State and poverty was not overcome at that time. It was a rarity that an industrial worker had his own, though modest, villa. That he would have, in a couple of decades, both his own home and a car, even he himself could not imagine. It was a grim fact that the personal property of common people families was in general so meagre that it simply could not be an attractive object for the insurance companies at that time. Owing to these facts, Cooperative Insurance devoted its attention, from the beginning, to the common people, and it has been the insurance company of the working class, at first within fire insurance and afterwards within life-, accident-, car and other insurance branches.

Folksam, a composed Swedish name of the union of the insurance companies: Cooperative Insurance, Leire (established in 1949), Folket, and Valfard (founded in 1950) has had, since several years ago, a greater number of insurance holders than any other Swedish insurance concern. The number of accident insurance holders and

health insurance holders is nearly 2.5 million, the group life insurances number 1.2 million, the number of the insured within the individual life insurance is over 700,000, the invalid insurance (rehabilitation insurance) amount to 1.2 million, the number of car insurances number about 200,000 and fire-, home-, villa, and home and other combined insurances are about 740,000. Perhaps it is necessary to say, in order to prevent a misunderstanding, that to a great extent, the same families and persons take part in the above-mentioned different insurance branches. But one can say that every third person in Sweden is insured in one way or the other in Folksam.

With its total premium income in 1957 related to the direct activity in Sweden and amounting to 154 million kronor (in 1937 20 million kronor and in 1947 42 million kronor), Folksam is today one of ~~the~~ Sweden's biggest insurance concerns. The corresponding premium income for the jubilee year 1958 was not less than 172 million kronor. If one takes into account the damage insurance, which is now the official name for all insurances except life insurance, Folksam has the leading place. The 50 years' jubilean Folksam is Sweden's greatest damage insurance company.

The tradition from the break-through years is preserved:

The size of a company in itself is not, however, of value and does not give an answer about the social usefulness of its activity. There are more essential factors. One can, for instance, inquire whether the company in question is bound by a network of cartel dispositions, or is it independent with the freedom to go its own way? Is its idealistic goal such, that the will to act right and for general benefit gets an organic and spontaneous stimulus? This attitude and way of looking at things is indispensably a part of our cooperative ideology. The standard, which is applied to judge the Cooperatives of

Consumers, should be applied to cooperative insurance companies also. We cannot be so presumptuous as to pretend that Folksam represents in every respect and at all times the finest within the Swedish insurance business. But we dare maintain that, from the beginning, Folksam has had a distinction mentioned earlier which its day-to-day activity made manifest increasingly year after year. What was it, we asked many times ourselves, that gave to Folksam social ambitions, social responsibility, interest for democratic administration and control, the absence of gain as driving factor within economic life, inclination to adopt collective insurance forms, and the feeling of international solidarity? The answer is easy. The Cooperative Insurance, Folksam's main body, established 50 years ago, grew out of the existing popular movements which stood for progressive, social and economic reforms.

The tradition from the break-through years has been preserved in all essential features and is all leavening through Folksam's present activity. It is confirmed by both its day-to-day insurance activity as well as by the new set-up of control by "part-owners, which was adopted in 1957 and which began to function from June 6, 1958.

The distinctive character in Folksam's development and activity has been clearly noticeable in many ways: in new insurance forms; in principles and practical attitude to current questions; in premiums and restitution questions; in cooperation with the trade unions about collective health-, accident-, and death insurance; in activity regarding rehabilitation of the handicapped; in initiative for a Board concerned with examination of damages and in which the insurance holders have a majority; in placement of capital; in election of representatives for hours-off time, of district heads as well as in the election for the Managing Board from the ranks of popular movements, etc.

When Cooperative Insurance started its work on June 1, 1908,

the day of the first insurance, there was already a decision of the Board that the premiums for life insurance should be 10% lower than those of the joint stock companies. Throughout this has been the rule for fixing the premium rates. But with time, the same approach spread to other lines also.

The year 1925 was in many ways a revolutionary reorganisation year within the cooperative insurance movement. A parliamentary system was carried through, which meant a great progress and which at once definitely put Folksam as to democratic structure in a class distinct from the other big Swedish insurance companies. Coordination between Folksam and the Cooperative Insurance (called in Sweden, Samarbete) was carried through by the setting up of a unified management, an event which has continuously been an important factor for an uninterrupted rationalized activity as well as for flexibility and effectiveness of Folksam's present organisation and administration. The year 1925 was considered also to be mature enough to complete the fire- and life insurance activity of the company with a line of other insurance activities in the Cooperative Insurance (Samarbete), as for instance accident-, car-, responsibility-, burglary- and guarantee insurance etc.

Afterwards, the programme was extended, among others, to boat insurance in 1947, to group life insurance in 1948, to marine insurance and transport insurance in 1949, and to workmen's accident insurance in 1950.

A collective insurance movement of unique significance:

The expansion of the activity initiated in 1925 meant that the Cooperative Insurance Company was on its way towards development into a great, versatile and influential national enterprise. The pre-requisites to carry on an independent and own premium policy became greater. This was, in the beginning, noticeable above all within accident insurance.

The Swedish social policy in the modern meaning does not have an old tradition. Earlier, safety for a Swedish worker was actually non-existent in case of unemployment. There was only a meagre folk-pension and an insufficient insurance in case of accident at work, but almost nothing more. Nor the prospects for radical measures regarding social insurance were specially bright in the twenties. Therefore, it was perhaps natural that the Swedish Trade Union movement, together with Folksam, tried in 1925 to establish insurance forms, which would complete the existing social measures and give greater safety to the working class. If, however, the Trade Unions were in a position to pay more attention to the question of insurance against unemployment caused by accident in work, the reason can be found in the arrangement of a collective insurance protection, which was cheaper than if every member had his own private insurance. The leading line of the discussion, which took place in the beginning of 1925, originated in a collective insurance activity of a unique significance and extent. The experience showed soon, that collective insurance can be arranged essentially cheaper than the individual one, because the insurance has been established on a firm mutual confidence between Folksam and the Trade Unions. The administrative costs, which in Folksam have always been comparatively low, were reduced considerably. The number of policy-holders increased uninterruptedly. There were 377,000 insured in 1935, 697,000 in 1945 and 2.2 millions in 1958. During the last two years, the collective accident insurance was completed by health insurance, group life insurance and rehabilitation insurance. Today 8 out of 10 Trade Union members are collectively insured in Folksam. A respectable part of the yearly premium incomes comes from the collective insurances, which was the reason that, in 1957, the Folksam's Assembly decided to reorganize its structure in order to admit representatives of the Trade Union movements besides the delegates of the cooperative union, which

were hitherto the only members of the Assembly. We, in Folksam, together with the Trade Unions and other organizations and groups, were able to establish such an interesting collective insurance movement, adjusted methodically to a now and then changing economic and social reality due to the State social intervention, and have moreover succeeded to maintain a successful development in many aspects within this sector of activity; this can be explained by the fact that the Cooperative Insurance movement is free and unbound, entirely independent of other insurance companies including cartel-minded tariff alliances, which have been established within insurance business in our country as in other countries.

We, in Folksam, increase or decrease our premiums, when the real reasons justify and motivate changes. We determine our insurance stipulations ourselves. We shape and establish new insurance types and present them to the market. We adjust our insurance movement to the changed conditions which are caused by economic and social developments. All these we can do without being compelled to have long or burdensome negotiations with other insurance companies, which are united in competition - obstructing tariff alliances.

New insurance forms:

Folksam has had the initiative even in other insurance branches besides collective insurances, and has been able to carry on in many respects considerable pioneering work in breaking new ground. Many new insurance forms were first presented and introduced by the Cooperative Insurance Movement, and only afterwards accepted or imitated by other companies.

At the end of 1930 came the combined insurances. This means that fire-, burglary-, water conduct insurance etc. were combined in one single insurance policy, each of which "branches" were considered at that time as independent. The essential fact is

that one gets compensation for one's losses, in case misfortune takes place; it is less important in which way this misfortune will be characterized: fire, burglary or something else. Folksam arranged in 1953 a new home insurance, and a year later a corresponding insurance form for real estate, villa and week-end cottages. In these new combined insurance policies, there is no more mention of fire-, burglary insurance etc.

The advantage of these new insurance forms is evident. The protection becomes more complete and more surveyable. The administration costs are smaller. And the result is better protection, smaller costs and lower premiums. Simultaneously with this reform, Folksam introduced in Sweden the recover compensation for villas and real estates, a revolutionary news. Already now, probably, the main part of the country's dwelling houses are insured with the right to a recover compensation. Since 1956 this compensation is a part of Folksam's home insurance, and in 1958 the same type of insurance was generally introduced in the car insurance also.

The cultural level of a nation could be measured by the interest a nation takes in its old people. One could perhaps add, that it can be measured also by the interest a nation takes in the handicapped individuals. The handicapped are a minority in the society; sufficient attention is not paid to their situation. They constitute a section whose labour power is not sufficiently used and as long as this is the case, the society does not get full productive contribution from them. Invalids' pensions can be the only solution in many cases, but the general goal must be to enable the handicapped to make a new start, to return to their professions or to undergo a retraining for another profession, thus enabling them to take part in the same social and cultural life as the others. Folksam which came in closer contact, through accident insurance, with people stricken by

invalidity and took part in their difficulties, tried to support the handicapped, partly by subvention to rehabilitation activity, and partly by stimulating the general interest of the people in problems of this sector of the community.

The rehabilitation insurance, which was shaped and established three years ago by Folksam, is unique in Sweden and probably in the whole world, and is mainly a collective insurance enveloping now 1.2 million insured, of which 200,000 are housewives. This insurance covers also compensation in the form of contribution for the retraining, and in the case of invalidated housewives a help for purchase of work-saving machines and other means of help in household work.

During the last five years Folksam has contributed, besides rehabilitation insurance, an amount of nearly one million kronor for a rehabilitation fund, of which about 600,000 kronor were for research and experiments. A special rehabilitation council, composed of experts in medical questions together with representatives of social institutions and professional organizations, cooperate in yearly distribution of grants upto 100,000 kronor.

The Swedish Cooperative Insurance Company is repudiating the cartel activity of other insurance companies, without abstaining, however, from other aspects of cooperation in respective common organisations. Folksam does not belong to tariff associations, and in the past it took part only exceptionally, - especially within life - and traffic insurance, where the state superintendence had a special supervision in general regarding premium questions. This entirely independent position has become still more noticeable since Folksam's consolidation, when its striking power and effectiveness has become fully adequate to protect the social interests of the community. The Cooperative Insurance movement could carry through during years a continuous pressure as price-regulating force, a pressure which

has been more and more methodic and effective and, in a couple of cases, Folksam manifested very sharply its considerable influence on the insurance market. We started a radical rationalization of the premium system within the fire insurance in 1946, which resulted in a great reduction of premiums. One could estimate Folksam's reduction of premiums, together with the reductions the other companies were obliged to do consequently, to yearly savings for the Swedish people of about 15 million kronor. Folksam's action led to heated discussions and controversy within insurance business of our country, and drew attention also in other countries. However, there are few to-day who do not realize the rightness of Folksam's policy in this connection.

Since 1929 the traffic insurance is compulsory for car owners. The premiums for traffic insurance are controlled by the State authorities, which asked at an early date that all insurance companies should keep the same premium. Towards the end of 1947, the insurance companies decided to increase considerably their traffic insurance premiums. Folksam was of the opinion that it had reason to keep its premiums unchanged. The State Superintendence, which approved the new premiums of other companies, ordered Folksam to increase its premiums to the same level. When we in Folksam refused, the Superintendence submitted the matter to the government with the demand that "the company in question be ordered to change its traffic insurance premiums according to other companies' higher traffic insurance premiums". The government had, however, another opinion. The protocol of a cabinet meeting of March 5, 1948, states that "the government finds that the demand of the Insurance Superintendence does not give reason for any action".

Folksam's independent conduct and the government's decision not to approve the recommendation of its own Superintendence was a clear evidence that free competition should and could be allowed even within a legally-regulated traffic insurance. A

precedent was thereby also made which has had great importance both in principle and in practice for the Swedish insurance business.

The Swedish consumers' cooperative movement has always shown respect for consumers' personal integrity and freedom of action, which has been expressed in different ways. The families connected to consumers' cooperatives have joined them freely and have voluntarily become the members. They can resign their membership and leave the coöperatives whenever they want. The members of consumers' cooperatives have full freedom of purchasing wherever they want, and the same principle is existing in the relationship between the local cooperatives and their central organisation, viz. The Swedish Cooperative Union and Wholesale Society (K.F). The principle is important. It manifests freedom of individuals and contributes to expose steadily the cooperatives to a lively, stimulating competition and to the necessity for them to preserve a competitive power. For these reasons, one must understand why Folksam has for long been against the so-called many-years contracts within insurance business.

The many-years' contracts came to our country at the end of the 19th century through the agents of foreign companies. At the turn of the century, even the Swedish insurance companies with the exception of district companies began to apply the many-years' contracts.

As we have already pointed out in a different connection, one can direct a justified criticism against the fact that the insurance holder, often even without being asked about his wish, is bound, may be for a decade, to a certain company. Since 1946 we work in Folksam without many-years' contracts. Also the Cooperative Insurance did not keep to the letter of the text of the normal binding contract, in cases, where somebody wanted to resign his insurance before the expiration of the contract, and move to another insurance company. Folksam undid this system

12 years ago, and a few companies followed suit. Companies which still work with five or ten years contracts justify it by saying that costs are reduced owing to these contracts. Folksam commented this argumentation by observing, that the foremost representatives of this view maintain steadily the highest premiums.

The many-years' contract obligations are obstructing the progress of sound and free competition. They are also obstacles to the simplification of private as well as of municipal and State insurance.

In 1956, the Insurance Superintendence asked all managements of insurance companies to consider if contracts, shorter than for five to ten years, were better for the insured. The Insurance Superintendence had at that time occasion to be acquainted with the argument in favour of many-years' contracts, but it was not convinced of it.

People's money to people's reforms:

„The administration of insurance holders' money plays a considerable part in Folksam's tasks. The Cooperative Insurance movement started 50 years ago without any capital. There was however, from the beginning, the idea that an insurance company should be a natural source of capital for the continued development of the cooperative movement. Today, we administer in Folksam, incomes amounting to over half a billion kronor. Our goal is that people's money should go to people's own aspirations and for the reforms they want. The existing laws restrict, to a high degree, free placement of capital, and during the last years, the "recommendations" of the National Bank Limited further the respective freedom of action.

It has been natural for Folksam to place its funds to a considerable extent, in such activity as is supposed to serve the insurance holders' interests in broader fields, e.g. through real estate loans to cooperative dwelling houses and other socially

useful building companies. In this sector, Folksam's placement is about 60% against about 50% for all other large insurance companies put together. Furthermore, Folksam's money is placed on loan to modern self-service shops, warehouses and production installations within consumers' cooperatives; to cooperative service stations and garages; to the new people's houses etc.

It is very satisfactory that both cooperatives and the Trade Unions now pay much more attention than before to the question of the administration of capital. Even if the capital of the popular movements is increasing, this increase does not correspond to the steady need of capital in our enterprises. Even in this field, however, as was pointed out by Axel Strand, the then President of the Confederation of Trade Unions, progress was achieved through cooperation and coordination, an approach which should not only be applied to the distribution of available capital but also to the creation of additional resources.

During the past years a combination of loan and insurance has been more and more in vogue in the insurance business. Municipalities, building companies, industrial enterprises and other categories of loan applicants offer often to sign an insurance in order to get a loan from insurance companies. It occurs also that an insurance company demands to get all insurances for an object on which a loan is granted. The discussion and proposals concerning such a compensation extend even to insured objects other than these on which a loan is granted. Even if competition among insurance companies is hard for the time being, the loan applicants run the risk of getting insurance at unnecessarily high premiums or under unfavourable general conditions. The combination of loan — insurance has an inherent tendency to over-emphasize consideration of securing a loan and interest thereon, and diminish interest in considerations

of the price of an insurance protection. This is much more open to objection in cases where the insured are bound to many-years' contracts. Folksam's position is this: one who grants a loan ought to be interested only in safety and interest - and of course in the purpose - but not in the question where the loan applicant is placing his insurance.

Self reorganisation and State control!

There are in Sweden about 1,200 insurance enterprises, of which approximately 1,100 are district or local companies. There are about 100 Swedish national companies besides 35 foreign enterprises. The insurance business of our country is much more concentrated in its structure than one generally believes. To a great extent, the enterprises are united in groups and concerns, kept together by financial, administrative or other ties. The national companies, which represent about 10% of all insurance enterprises, have approximately 97% of the total premium incomes.

" In a statement submitted to the authorities 10 years ago, Folksam pointed out that coalitions would probably take place during the coming years on account of sharp competition. The forecast has materialised. During the last decade there were many mergers among insurance enterprises. There is reason to believe that the development in this direction will not stop, on the contrary it looks very probable that new mergers are already under way.

We, in Folksam, maintained much earlier that there was good reason for criticism regarding the large number of enterprises which were active in insurance business in our country; so much more because most big companies have been associated in cartels. We consider the efforts to concentrate the activity in a smaller number of units to be of advantage. The concentration in insurance business will not abolish the competition, on account of the fact that the cooperative insurance

movement is continuously exerting itself to preserve free competition. On the contrary, the competition will be sharpened.

In this connection it would be of interest to comment on the discussion which now and then flares up about the question whether the private and cooperative insurance companies or a part of their activities should be nationalised. This would, however, draw us too far. In spite of recent official investigations, one can probably assert that there is, for the time being, no question of an extensive and radical nationalisation of the Swedish Insurance business. It is, however, not excluded that the State authorities will decide upon further expansion of social insurance which will seriously affect the present forms of activity of insurance companies. No objection can be made in principle against this idea. No insurance company can be a goal in itself, nor can it be protected from an intervention which may be made in the public interest.

A strong reason for State authorities to grant to our insurance companies quiet possibilities essential for work and planning in the longer run is the purposeful rationalisation which is now going on in many areas. Folksam inaugurated already in August 1956 the first "electronic brain" in Scandinavia for use for commercial purposes. During the post-war years, premiums were reduced and insurance conditions made easier, in spite of a perceptible increase of expenses in salaries and other costs, and notwithstanding the development in other domains of economy resulting in higher prices for goods and services. (It is no secret that the insurance companies had to reduce their profit margins and also the tempo of consolidation is somewhat slower). The most important explanation for a noticeable increase in effectiveness of insurance companies lies in a rationalisation forced upon them by sharp competition.

Another reason for the State to continue to allow the insurance companies the quiet possibilities mentioned above is that they were placed under close public superintendence and control long ago, which has no counterpart in most other parts of the country's economy. The Insurance Inspection Law of 1904 was made on the

proposal of responsible-minded insurance companies. For them it has been an advantage and strength to be supervised by a public authority.

Without Frontiers:

When the Board of the Cooperative Union and Wholesale Society of Sweden (K.F.) submitted to the Congress in 1905 a proposal that a cooperative insurance company should be established, an International aspect was also suggested. The cooperative insurance companies in different countries should support each other by, for instance, reinsurance. But at that time, they were ideas for the future. However, since our movement is international, this is not an impossibility.

In fact, the ideas for the future have already materialised. Since many years, the cooperative insurance companies in the Nordic countries cooperate in reinsurance as well as in exchange of experience. Representatives of all cooperative insurance companies of the four Nordic countries meet at a conference every three years. Even outside Nordic countries the cooperative insurance companies cooperate. They meet at a conference once every three years in connection with the International Cooperative Congress of the ICA. Their common organ is the Insurance Executive. An International Cooperative Bureau for reinsurance was established after a decision of this Executive at a meeting in Stockholm in 1949. To the Bureau are associated 26 cooperative insurance companies in 16 countries in different parts of the world.

One of the most burning tasks of the ICA Insurance Executive as well as of the Reinsurance Bureau is to pay increasing attention to the efforts to promote cooperative insurance business in the developing countries. In connection with the 50 years' jubilee of the Cooperative Insurance, Folksam gave for this purpose an economic support amounting to 75,000 kronor, an initiative which was followed abroad also. Furthermore, Folksam allocated in November

1960 a fund of about two million kronor. One part of its yearly returns will be available for the international assistance activity.

We, within the cooperative insurance movement, endeavour to be guided in our work and in our solution of problems by consumers' cooperative principles and traditions. In such a way, we believe to serve best and be able to materialise pioneers' hopes and dreams, in Sweden of today and of to-morrow, as well as in the broader international field.

Mr. D. N. Desai: Union Co-operative Insurance Society.

The Union Co-operative Insurance Society was registered in 1951 under the Insurance Act. The Co-operators of Bombay State formed the Society in order to keep the business of insurance within the movement itself. The total share capital of the society is Rs.10 lakhs.

Management:

Representation on the Board of Directors is granted on the basis of contribution to the share capital by the following:-

- | | | |
|-----------------------------------|---|-----------|
| i, Central Co-operative Banks, | - | 3 members |
| ii, Urban Co-operative Banks, | - | 2 members |
| iii, Industrial Cooperative Banks | - | 1 member |
| iv. Other Societies | - | 5 members |

Election takes place within each of these categories separately by postal ballot.

The Registrar of Co-operative Societies is an ex-officio director of the board. The Society has constituted State Advisory Boards in different states, which are appointed by the Board of

Directors in consultation with the Registrar of Co-operative Societies, who is also a member. The President of the apex bank and apex marketing society are some of the members on the Advisory Boards. It appears, however, that the policy-holders do not have control over the management, and have no representation on the board.

Like other mutual insurance organisations, the Society gives bonus to the policy-holders which is higher in the case of this society than other mutual organisations.

Business.

The business of the Society consists to a great extent of very short-term policies - 1 to 3 months' contracts - issued for protection of commodities such as cotton, tobacco etc. This accounts for a high level of the administrative costs which were 42 per cent of the total premia collected in 1959-60. The average size of the policy is also small viz Rs.80/-. The administrative costs are higher also on account of the protracted negotiations required to attain a preferred position as regards business from Co-operatives.

The Society is trying to persuade other existing smaller co-operative insurance societies to amalgamate with itself and other state governments not to start separate small co-operative insurance societies.

The Society has its head office at Bombay, with branch offices at Delhi and Calcutta. However, the Society gets its business entirely from rural areas.

The total premium income is Rs.35/- lakhs a year, but it is hoped that this will rise to Rs.60/- lakhs by 1960-61.

Training

The society maintains no training programme of its own apart

from on-the-job training for its staff. The staff are also encouraged to take the examinations of the Insurance Institute. Efforts are being made to include the subject of Co-operative insurance in the syllabi of the Training Centres of the Reserve Bank in order to provide training in insurance to the officers of the Co-operative Departments.

The Union Insurance Society has been able to reinsure with Cooperative Organisations in the West through the agency of the ICA Reinsurance Bureau. Reinsurance on favourable terms has increased the revenue of the Society which has made it possible to distribute larger bonus to policy-holders.

PART II

CROP AND CATTLE INSURANCE

Crop and Cattle Insurance

Dr. G.R.Seth, who introduced the subject, made the following points:

Need

The importance of agriculture in the national economy and the need for increased investments in land make it necessary to evolve schemes under which farmers could be given protection against the risks to which agriculture is so frequently exposed in India. An equally important measure relates to the provision of insurance for cattle, since cattle are the major source of power at the disposal of the farmer and their replacement calls for an investment that is not entirely within the means of the individual cultivator. The commercial concerns, barring limited and isolated efforts, have been hesitant to enter the field since the very high risks involved and the small size of policies make the venture an uncertain economic proposition.

Historically, efforts in this direction in the country have been of very recent origin. About a decade ago, G.S.Priolkar studied the possibilities of introducing crop and cattle insurance and, on the basis of his inquiries, formulated two schemes. These, for reasons of costs and the non-responsiveness of State Governments, were, however, not implemented. In 1959-60, the Government of Punjab decided to execute the scheme with suitable local modifications. Earlier, in 1956, attention was focussed on the subject when the FAO organized a Working Party at Bangkok to discuss the question of crop and cattle insurance.

Difficulties

Some of the difficulties in implementing a scheme of crop insurance are:

- i) Non-availability of the required statistics such as loss rates in different years;

- ii) Lack of experience in the country and of trained personnel; want of an organisational set-up;
- iii) Heavy financial commitments; and
- iv) Moral hazards.

These difficulties were already outlined in Priolkar's report of 1949 but the situation has since altered for the better. Statistical coverage is more extensive and accurate now; farmers are becoming profit-conscious; and a vast network of Cooperatives and community development organisation is now spread out over a large number of villages. However, some problems still remain.

Pilot Scheme for the Panjab

The scheme in Panjab is to be introduced on a pilot basis, and, barring suitable local modifications, follows the scheme outlined by Priolkar. It would cover 12 centres so that the losses incurred in some centres could be averaged off against the gains accruing in other areas. The scheme is of a compulsory nature, since under voluntary insurance only farmers, operating in areas of high risk potential, or during high risk years, may be attracted by the scheme. The insurance coverage would be given on the basis of certain areas i.e. community development blocks, rather than on an individual basis. Compensation will become payable when the yield in the block falls below the overall average.

Financial Implications

The financial commitments involved are considerable. A total crop failure in all the 12 centres would result in a loss of Rs. 5 crores. Loss of crop in 1 centre would entail a loss of about Rs. 50 lakhs, and since the total premium expected is of the order of Rs. 35 lakhs, there will still be a deficit of Rs. 15 lakhs. It is estimated that if a crop failure occurred to the tune of 40 per cent, a reserve of Rs. 50 lakhs would be needed to cover the loss. In view of the heavy financial implications, the Government of India is finding it difficult to extend reinsurance facilities.

Moral Hazards

Apart from finances, there are likely to arise a number of moral hazards. Crop insurance, unlike cattle insurance, calls for an intricate system of the proper assessment of the degree of loss since the loss generally is partial rather than total. In view of the lack of accurate statistics, there would be a tendency on the part of the cultivator to pitch his yields higher than they actually are thus indicating a higher amount of loss than is really incurred. In order to guard against this eventuality the Punjab scheme lays down that no compensation would be paid if the loss does not exceed 40 per cent.

Then there are problems connected with the poverty of the farmers which makes it difficult for them to pay the premium, and the difficulties of effecting collections. One method is to subsidize the payment of premium. In Japan, for instance, the Government subsidizes 60% of the premiums payable by farmers. Secondly in order to facilitate collections, it is intended to collect premiums along with land revenue under the Punjab Scheme. Such a practice may, however, give rise to adverse psychological consequences. Under a compulsory scheme, payment of premium might be considered synonymous with tax. Finally, there is the difficulty of adjusting claims during periods of fluctuating prices.

The Panjab Scheme Further Explained (Mr. Singh's elaboration)

Mr. Singh, who is in charge of the implementation of the scheme, gave some further details about the projected crop insurance plan in the Panjab. Although the scheme envisaged giving protection to the C.D.Blocks, individual cultivators could also buy coverage on payment of extra premium. A major long-term problem might arise out of the fact that farmers may begin to neglect the cultivated areas, insured as they would be against future losses. In the case of those crops where the harvest is

done several times, the problem arises as to the method of assessment of damage if the damage to the crop takes place after the first or the second harvest. Such is the case of cotton where picking is done four or five times a year. Finally, the financial problem is likely to be very acute if in a five-year insurance contract, the first two or three years happen to be bad years.

Mr. Desai outlined the efforts of the Union Cooperative Insurance Society in the field of crop and cattle insurance. The scheme is voluntary and the crops covered are cotton and sugarcane. These crops have been selected in view of the different nature of risks. In addition, statistics are available for these crops and crop loans, marketing and processing on Cooperative basis have been developed, thus ensuring better supervision of damage, etc. Insurance facilities are provided only to members of Cooperative Societies. Moreover only those individuals are allowed benefits of insurance who have borrowed from Cooperative Societies and marketed their produce through them. Compensation is paid when damage exceeds 25% of the average production for a 5-year period. In case of cotton the loss ratio on a 5-year basis is worked out at 3.20. Premium is charged at 3.5% on gross average annual yield valued at the price prevailing in the previous season. Except floods, protection is given against all risks, p e.g. pests, diseases, excessive rain etc. Certain administrative costs are defrayed to the multi-purpose and produce sales societies. So far, 10,000 acres of cotton have been covered. The society has been able to obtain reinsurance facilities in the American market. In the Kaira district the society is also providing cattle insurance facilities.

Discussion

General discussion was carried out under the following 4 heads:-

- I. Obstacles to crop and cattle Insurance.
- II. Criteria for selection of areas for implementation of the scheme.

III. Finances.

IV. Organisation and Training.

I. Obstacles: Very high risks associated with agriculture and cattle were mentioned. A good agricultural extension service and improved extensive veterinary service were prerequisites for the success of the insurance schemes. In the collection of premia, it was suggested that the agency of the Panchayats, cooperatives and local revenue officers may be utilised.

II. Selection of Areas. Areas might be selected with a view to spreading risks. Also a number of crops should be included under the scheme.

Areas where community development activities and Cooperatives have made a good impact might be more favourable to the introduction of the schemes.

III. Finances: The reserves needed were recognised as a major problem. The main thing in this respect was, of course, to spread the risks as between different areas, as between different crops and perhaps as between organisations at different levels as is done in Japan. Also possibilities of reinsurance in the foreign markets might be explored. If there still remained a deficit, the deficit should be covered by a guarantee from the Government of India and the State Government, since no relief would have to be paid under insurance conditions.

IV. Training: The important problem was staff training at the field and other levels, for which training courses might be organised. But it was equally essential to make the farmers insurance-minded and develop in them an appreciation of the benefits of insurance.

Cooperative organisations at the local level might be utilised for the purpose.

APPENDIX. I

INSURANCE SYMPOSIUM PROGRAMME

Saturday 4th, March, 1961

- 10.00 a.m. Introduction; Welcome address.
10.15 - 11.00 a.m. Cooperative Insurance. Mr. Bucht.
11.15 - 12.00 noon Cooperative Insurance (contd.) Mr. Bucht.
12.15 - 1.00 p.m. Question period
3.00 onwards Technical aspect of Insurance in India.
Questions and Answers.

Sunday 5th, March, 1961

- 10.00 - 10.45 a.m. Social Insurance Benefits in Sweden.
11.00 - 12.00 noon Problem of Crop and Cattle Insurance in India.
12.15 - 1.30 p.m. General Discussion and Summing up.