

**International
Co-operative Insurance Federation**
Affiliated to the
International Co-operative Alliance

1972 CONFERENCE
Proceedings and Reports

Warsaw, Poland
7th and 8th October, 1972

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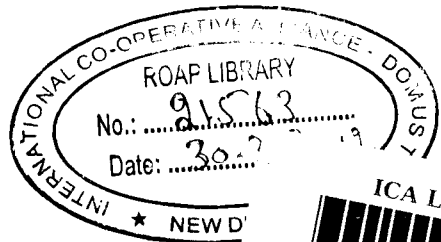


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ATTENDANCE LIST

DELEGATES

- Austria..... *Wiener Städtische Wechselseitige Versicherungsanstalt*
Mr. O. Binder
Dr. E. Göttlicher
- Belgium *La Prévoyance Sociale*
Mr. R. Lemaire
Mr. H. Rijkers
- Les Assurances Populaires*
Mr. K. De Witte
Mr. H. Mertens
- Canada *Assurances U.C.C. Compagnie Mutuelle*
Mr. C. Graveline
- Co-operative Insurance Services*
Mr. G. L. Matheson
Mr. W. B. Melvin
- Co-operators Insurance Association (Guelph)*
Mr. F. G. Cryderman
Mr. T. Haalboom
- La Sauvegarde*
Mr. G. La Riviere
- L'Assurance-Vie Desjardins*
Mr. F. Leclerc
Mr. O. Mercure

Les Artisans Coopvie

Mr. A. L. Godin
Mr. P. Morozain

Denmark *Mejeriernes og Landbrugets Ulykkesforsikring*

Mr. V. Høiriis-Johannsen

Federal Republic
of Germany..... *Unternehmensgruppe Volkshfürsorge*

Mr. C. J. Behn
Mr. F. Goppold
Mr. P. Heise

Finland *Kansa Group*

Mr. A. Finérus
Mr. J. Hyvärinen
Mr. K. Tuomainen

France *La Sauvegarde*

Mr. J. de Lavalette
Mr. M. Gastal

Great Britain *Co-operative Insurance Society*

Mr. F. H. Edwards
Mr. J. S. Greig
Mr. H. H. Knighton
Mr. H. Seeley
Mr. H. A. Toogood
Mr. H. W. Whitehead

Holland *Coöperatieve Vereniging "Centraal Beheer" G.A.*

Mr. J. G. Gerritsen

Iceland..... *Samvinnutryggingar and Andvaka*

Mr. A. Magnusson

Italy *Compagnia Assicuratrice Unipol*

Mr. M. Brunetti
Mr. C. Zambelli

Japan *National Federation of Insurance Co-operatives for
Labourers and Consumers*

Mr. T. Aisaka
Mr. E. Asai
Mr. T. Chiba
Mr. T. Fujisaki
Mr. S. Ishii
Mr. J. Kaneko
Mr. M. Kitazawa
Mr. K. Kojima
Mr. N. Kokado
Mr. H. Kunisawa
Mr. K. Mishima
Mr. T. Mori
Mr. S. Motoyama
Mr. H. Muto
Mr. M. Omori
Mr. K. Sato
Mr. T. Shimono
Mr. M. Takada
Mr. T. Takemoto
Mr. N. Tanigami
Mr. N. Tanigami
Mr. Y. Teramoto
Mr. K. Tsubuta
Mr. J. Ukai
Mr. K. Yamada
Mr. K. Yamamoto
Mr. Y. Yashiki
Mr. T. Yoshida

Zenkyoren

Mr. A. Imaizumi
Mr. Y. Mikami
Mr. Y. Yamanaka

Malaysia *The Malaysian Co-operative Insurance Society*

Mr. G. S. Dass
Mr. A. Hourmain
Mr. E. R. A. Joseph
Mr. N. A. Kularajah
Mr. V. Ramalingam

Norway *Samvirke Group*

Mr. M. Bølviken
Mr. S. Flugstad
Mr. K. Holler

Puerto Rico..... *Cooperativa de Seguros de Vida de Puerto Rico*

Mr. V. M. Valcárcel
Mr. H. Zayas-Chardon

Sweden..... *Kooperationens Pensionsanstalt*

Mr. S. Guldberg
Mr. E. Ohlsson

The Folksam Group

Mr. K. Back
Mr. R. Cederloef
Mr. H. Dahlberg
Mr. J. Fernström
Mr. K. Grahn
Mr. K. Gustafsson
Mr. A. Hallberg
Mrs. M. Lehman
Mr. K. Lindberg
Mr. L. Lindwall
Mr. S. Rimmerfeldt
Mr. S. E. Román
Mr. E. Wohlner

Switzerland *Coop-Lebensversicherung*

Mr. E. Debrunner
Mr. W. Maurer
Dr. A. Simon

U.S.A. *League Life|General Insurance Company*

Mr. A. Charbonneau
Mr. H. Kowal
Mr. A. Siegert
Mr. R. E. Vanderbeek

Mutual Service Group

Mr. R. N. Eller

Nationwide Insurance

Mr. W. E. Fitzpatrick
Dr. J. D. Hogan
Mr. E. F. Hull
Mr. D. E. Johnson

OBSERVERS

Mr. P. Gooch.....	<i>CUNA Mutual Insurance, U.S.A.</i>
Mr. L. Kozicki	<i>WARTA Insurance and Reinsurance Co. Ltd., Poland</i>
Mr. G. LaChapelle...	<i>CUNA International, U.S.A.</i>
Mr. D. J. Nyanjom	<i>International Co-operative Alliance, Africa</i>
Mr. R. C. Robertson	<i>World Council of Credit Unions, U.S.A.</i>
Dr. S. K. Saxena ...	<i>International Co-operative Alliance, Great Britain</i>
Mr. P. E. Weeraman	<i>International Co-operative Alliance, Asia</i>
Mr. S. Weichert	<i>WARTA Insurance and Reinsurance Co. Ltd., Poland</i>
Mr. J. Wyznikiewicz	<i>WARTA Insurance and Reinsurance Co. Ltd., Poland</i>

ORDER OF PROCEEDINGS

Opening of the Conference

Welcome by Mr. R. Lemaire, *Chairman*

Opening Address by Dr. S. K. Saxena, *Director of the I.C.A.*

Business Sessions Agenda

- (1) Approval of the Agenda.
- (2) Minutes of the 1969 Insurance Committee Conference.
- (3) Secretary's Report by Mr. H. Seeley, *Secretary*.
- (4) International Co-operative Reinsurance Bureau Report by Mr. H. H. Knighton, *Secretary*.
- (5) Insurance Development Bureau Report by Mr. K. Back, *Chairman and Secretary*.
- (6) Financial Statement by Mr. W. Maurer, *Treasurer*.
- (7) *Allnations, Inc.* Report by Mr. D. E. Johnson, *President*.
- (8) Amendment of Rules:—The following changes in the Rules will be proposed by the Secretary:

Rule 3: Delete the wording of this Rule and substitute the following:
"Contribution to the funds of the Committee shall be calculated on the basis of £10 for each complete £100,000 of the yearly premium income up to £20,000,000 plus £1 for each complete £100,000 yearly premium income thereafter, with a minimum contribution of £100 from each affiliated society or group of connected societies.

A subscription on behalf of its member societies shall be paid each year by the Insurance Committee to the International Co-operative Alliance, the amount of such subscription being that percentage of the total contributions received under this Rule as shall from time to time be authorised by the Insurance Committee when it meets in full Conference, subject, however, to the Executive Committee being empowered to vary such percentage in the periods between the full Conferences as may be necessary to ensure that a fair subscription is paid to the International Co-operative Alliance.

The subscription to the International Co-operative Alliance for the year 1973 shall be 80 per cent of the amount contributed in that year under this Rule."

Rule 4: (i) In the first sentence delete the word " seven " and substitute the words " up to nine ".

(ii) At the end of the second sentence insert the following:
" The Executive Committee shall if it so wishes appoint an Assistant Secretary and Assistant Treasurer."

Rule 5: (i) Delete the first sentence and substitute the following sentence:

" If possible the Insurance Committee shall meet in Conference at the same time and place as the Congress of the International Co-operative Alliance."

(ii) Delete the words " Each Society has one vote " and substitute the following:

" Each independent Society or each Association, Federation or Group of societies shall have one vote only by reason of membership and an additional vote for each £135 of annual subscription due and paid in the year immediately prior to a Conference, provided that the aggregate votes of any one Society, Association, Federation or Group of societies shall not exceed 10% of the total votes of the members.

Members shall be entitled to appoint one delegate for each vote held by the member and provided circumstances permit the Executive Committee shall be authorised to permit members to send other representatives as observers at Conferences on such terms as the Executive Committee may from time to time determine."

Rule 10: The following new Rule 10 to be added after Rule 9:

" Membership of the Insurance Committee shall cease:

(a) By voluntary resignation: notice of which shall be given by the Organisation concerned at least three months before the end of the financial year of the Insurance Committee.

(b) By non-payment of subscriptions: any Organisation which in two successive years has not paid its subscription, or made a specific request to the Executive for leniency, shall be deemed to have voluntarily resigned and shall be removed from the list of members.

(c) By resolution of the Insurance Committee: any Organisation which acts contrary to the interests or Rules of the Insurance Committee, or whose activity is inconsistent with the Objects of the Insurance Committee, shall be excluded from membership."

(9) New name for " Insurance Committee of the I.C.A.":—The Secretary will propose that the new name shall be " International Co-operative Insurance Federation " and that the Rules be amended to give effect to this alteration.

- (10) Establishment of a Risk Fund: Mr. K. Back will propose that a Risk Fund be established under the control of the Executive Committee for use when an applicant society for a loan to be guaranteed by *Allnations, Inc.* is unable to meet all the conditions required by the *Allnations, Inc.* regulations.
- (11) The following Papers to be presented:
 - (a) " Progressive mechanisation and automation in co-operative insurance " by Mr. N. A. Kularajah, *Malaysian C.I.S.*
 - (b) " Mathematical Models and Forecasting: Coping with Uncertainty in Financial Planning " by Dr. J. Hogan, *Nationwide Insurance.*
 - (c) " The extension and development of co-operative insurance as an alternative to the nationalisation of insurance " by Mr. K. Back, *The Folksam Group.*
 - (d) "Availability of insurance in ' High Risk ' areas " by Mr. R. E. Vanderbeek, *League Life/General Insurance.*
- (12) Election of the Executive Committee.

SESSION OF 7th OCTOBER, 1972

The first session of the Conference opened in the Rudniew Hall, Palace of Culture and Science, Warsaw, at 09.00 hours.

Mr. R. Lemaire in the Chair.

OPENING OF CONFERENCE

CHAIRMAN: Ladies and Gentlemen. I have the pleasure to call this meeting to order and declare formally opened the 16th Conference of the Insurance Committee of *International Co-operative Alliance*.

WELCOME BY CHAIRMAN

CHAIRMAN: Although I have been attending the Conferences of the I.C.A. Insurance Committee for many years, this will be the first time I have the honour to Chair the meeting. I am specially happy to be in the Chair during the year when the Insurance Committee will celebrate the 50th Anniversary of its creation and specially happy because it was my father who was responsible, 50 years ago, in 1922 to invite the known co-operative insurance societies of Europe at the time to meet in Rome in order to co-operate internationally.

My first duty is to welcome you all here at this Conference. I think it is great to meet again old friends with whom we have been associated for many years and you will certainly all be with me, I am sure, when I express an especially warm welcome to those delegates attending their first Conference; and particularly those representing the Member Societies who have been admitted into membership since the last Triennial Conference, which was held in Hamburg in 1969, namely those representing *Les Artisans Coopvie*, Canada; *Assurances U.C.C.*, Canada; and *Centraal Beheer*, Netherlands. I am sure they will all find a nice welcome and I am sure will like meeting their colleagues of other co-operative insurance societies where they will find interest and sympathy. I would like also to welcome the

“ Observer delegates ” and I hope they will bear with us, although they are not allowed to take part in the discussion of the business matters; but they will be most welcome to take an active part in the discussion when we consider the Papers which will be presented.

Unfortunately we have not the pleasure of having with us Dr. Bonow, President of the *International Co-operative Alliance*, who is unavoidably absent and we understand very much that due to the call of other duties he could not be here. But we have the special pleasure of having with us Dr. Saxena, Director of the *International Co-operative Alliance*. Dr. Saxena, many of us have known you for many years, long before you became Director of the I.C.A., and we know your skill and are confident in your ability. May I invite you now to say a few words to this Conference.

OPENING ADDRESS

DR. SAXENA: Mr. Chairman, Friends. I am most pleased to have been asked to come and speak to your Conference today. The reasons for this are twofold. First of all, it is a pleasure to be able to associate myself with a group of co-operators who have been very active since the last Congress of our *Alliance* and whose report of work, as contained in your Secretary's Report and other documentation circulated for the Conference, indicates a balanced combination of practical work and reflection on some serious issues concerning co-operative insurance. Secondly, it is a pleasure to thank you for the support the Insurance Auxiliary Committee have given, in several ways, to the central body of the *International Co-operative Alliance*. For both these reasons, therefore, and on behalf of my President and myself, I wish to congratulate this important Auxiliary group of the I.C.A. on its 50th Anniversary and on its constructive work, and also to wish you success in your two days' discussions, which you have been good enough to arrange after the I.C.A. Congress to ease the pressure on our services.

When Dr. Bonow spoke to you at your last Conference in Hamburg he underlined some of the fundamental issues which your Paper, at that Conference, on “ Pollution of the environment and insurance claims ” had raised. Since then the United Nations Conference on the Human Environment has been held in Stockholm in June this year. The I.C.A. was represented at that Conference and I am very pleased that this major issue of the pollution of the environment is now being faced at the highest level. The Club of Rome report has drawn attention dramatically to the predicament of mankind and I am hoping that the General Assembly of the United Nations will confirm the recommendations which were made at the Stockholm Conference. Perhaps we should derive some satisfaction from the fact that our international co-operative movement reflected its concern with this major problem at the Hamburg Congress, in the International Declaration of Consumer Rights, and in the Paper which was presented at your last Conference. I think, if properly pursued, the implications of this major United Nations exercise may have consequences to which you, Gentlemen, may be able to contribute a great deal.

Connected with this broad area of concern is the question of inter-Auxiliary collaboration and I am pleased that an inter-Auxiliary

Conference, at irregular intervals, now provides an opportunity for discussion of matters which are of mutual relevance. Committees and conferences are no virtues in themselves: they are relevant only to the extent that their deliberations have a practical bearing on the issues which we face.

Before the Congress, I have had the opportunity of attending several Auxiliary Committees and Conferences of the I.C.A. and I have emphasised on all of them, as I do now, the urgent and vital needs for increased collaboration between co-operative organisations. The principle of co-operation among co-operators was adopted at our Vienna Congress after a great deal of thought: it has implications for practical economic relations as well as for the vital purposes which we all cherish in the Co-operative Movement. I am, therefore, very pleased to read through the Reports of your two sub-committees, the International Co-operative Reinsurance Bureau and the Insurance Development Bureau. The Reports indicate steady growth and these groups are pursuing successfully a number of activities which are indicated in the documents. There are, in addition, several technical Papers and I hope that the result of your deliberations on these complex subjects, such as "Uncertainty and forecasting," "Progressive mechanisation and automation in co-operative insurance" and "Availability of insurance in 'High Risk' areas" will be useful. The innovative approach in Mr. Vanderbeek's Paper, the dichotomy of the "voluntary" and the "residual" market and its consequences, the references to "FAIR plans" and the "Canadian facility" and the early parallels in European insurance experiences, are all extremely important matters on which sharing of experiences will have practical economic results for all of you. Mr. Kularajah's Paper on "Mechanisation and automation" outlines the development of this process very well indeed; perhaps, as a caution, he emphasises towards the end of the Paper, that it is a matter of judgment with regard to the extent of automation and the appropriate pre-conditions which require its introduction. Clearly, providing the most effective service to our members is our goal. There is, however, as industrial psychologists have warned us, also the problem of staff morale, of ennui, of the significance of what is properly called the "chat factor" which has to be taken into account. The four small Commissions which have been appointed by you all deal with matters which are of great potential value to the insurance co-operative movement. More particularly, the investigation of the problems of "Insurance and Investment Funds" is a matter with which the Co-operative Movement as a whole is vitally concerned. You would recall that one of the two major themes for the discussion at Congress was "Multi-National Corporations and the International Co-operative Movement." A number of practical suggestions made related to the provision of long-term finance, of co-ordinating the supply and the management of demand for the international co-operative movement; and your advice on all these matters will no doubt be treated with the greatest of respect by the Co-operative Movement.

I do not wish to make a long speech as I know that you have a very heavy agenda, but please permit me, Mr. Chairman, to make two more brief points. I have followed the activities of the work of your Insurance Development Bureau with care and I am impressed by the dynamism which has characterised its work. Sometimes difficulties and problems in developing

countries are of an extremely complex nature, but I think we must not be daunted by them. The Paper entitled "Extension and development of co-operative insurance as an alternative to nationalisation" was received by me a little late, but I have nevertheless read it with the greatest of interest. It deals with a problem which is topical, which is complex, and on which the Co-operative Movement must take a point of view. It is not, as the Paper rightly emphasises, an "either/or" choice; it is rather a question of complementarity. The reasons for the nationalisation of insurance in a number of developing countries are set out clearly in the Paper. I think the basic one is the investment programming of insurance societies which, rightly or wrongly, have in the opinion of the authorities not conformed to the broad objectives of social and economic development of the countries concerned. For us in the Co-operative Movement, therefore, it is important that we present clearly and effectively, at the highest level, the merits which our own pattern of co-operative organisation offers. Nationalisation often responds to the general desire for public ownership of a large area of finance. At the same time, it has been my experience that it gets overloaded with a much greater element of administrative culture than is sometimes justified in a business organisation. I would suggest, if I may Mr. Chairman, that some thought may be given to discussing this matter at the highest level, in some selected countries, by a small top-level delegation of the Insurance Committee which are represented in this organisation.

I am aware of the discussions which have taken place concerning the new subscription structure which the I.C.A. Congress has approved the other day. I regret that the Insurance Committee did not have the opportunity to discuss the matter formally at its full meeting. I have no doubt that the Central Committee of the I.C.A., as is clearly specified in the altered subscription rules, will give the most serious consideration to any recommendations which the Committee may wish to make.

Mr. Chairman, Ladies and Gentlemen, may I thank you once again and tell you how very great importance we in the I.C.A. attach to your work and that if we in the central body of the *Alliance* can be of any assistance in the furtherance of your work, you must count on our co-operation and full support.

CHAIRMAN: Thank you very much, Dr. Saxena, for your inspiring message. Be sure that all the problems you mentioned will be discussed and examined here. I know that you have other duties which are calling you, and in advance I will tell the Assembly that you will be excused whenever you have to go.

BUSINESS SESSIONS

CHAIRMAN: We shall now proceed to the matters on the Agenda, but before doing so I will ask Mr. Edwards to make a few practical announcements for the conduct of this meeting.

MR. EDWARDS: It has been agreed that the morning sessions will continue until 12.30 hours because, as many of you will now know, it is

almost impossible to get lunch in the hotels before 13.00 hours. The afternoon sessions will therefore resume at 14.30 hours instead of 14.00 hours.

At the end of today's session coaches will be provided by the *WARTA Insurance and Reinsurance Company* to take delegates back to their hotels and then bring them back to the Europejski Hotel for the cocktail party at 18.00 hours hosted by *WARTA*. Representatives from *WARTA* hope to meet all of you at this cocktail party at which they are looking forward to discussing with you insurance matters of mutual interest.

I would appeal to all the speakers who speak in the Conference to do so slowly as this does help our interpreters.

We would also like speakers who are not introduced by the Chairman to announce their name and organisation before they commence to speak on the subject under discussion. Many of us have not yet had the pleasure of meeting each other and this will give us an opportunity to know you.

I would now like to refer to the voting procedure which may be necessary during the Conference. The present Rules allow one vote per member. In practice, however, at past Conferences the representatives of a Group insurance company have always exercised only one vote for the Group and not one for each associated Member. It is proposed to adopt this practice unless the Rule 5 amendment, which is proposed under Item (8) of the Agenda is passed, when it will clarify the position. I will now read out the names of the Members or Groups represented at Conference and will be pleased if you will arrange for one of your delegates to come forward to receive a Voting card.

The names of each Member Society or Group represented were then read out and the Secretary gave a Voting card to one of their delegates who came forward.

Having got Voting cards in case we do have a vote I would now like two volunteer Tellers to come forward. I would suggest that the Tellers be from companies with more than one delegate so that the Teller does not lose his company's vote by acting as Teller. Mr. Dahlberg, of *The Folksam Group*, for one. One more please. Thank you Mr. Hull, of *Nationwide Insurance*, for the other.

Finally, and perhaps the most important announcement. When we come to the end of tomorrow you will notice that on the Agenda we have "Nominations for the Executive Committee." We would like you to hand nominations for the Executive Committee to Mr. Seeley, our Secretary, before he leaves the Conference Hall today. Any nominee proposed must, of course, have agreed to serve, if elected, before you nominate him.

1. Approval of the Agenda

CHAIRMAN: Now, Ladies and Gentlemen, we come to the formal business of our Conference. The Agenda has been circulated and I shall ask someone to move the approval of this Agenda. Proposed by Mr. Seeley. Seconded by Mr. Vanderbeek. No objections? I therefore consider the Agenda is approved.

2. Minutes of the last Conference

Now we come to the first item, the approval of the Minutes of the last Conference which was held in Hamburg. Those Minutes have been circulated. They are submitted for your approval. Are there any objections against the approval of these Minutes? None? They will be considered as approved.

3. Secretary's Report

We come now to the next item, the Secretary's Report by Mr. Seeley, Secretary of the Insurance Committee.

MR. SEELEY: Ladies and Gentlemen, you have all received copies of my Report and therefore I do not propose to take up the time of Conference by reading it again to you. There are however, one or two points on which I might comment.

First, with regard to the various Commissions appointed by the Executive Committee to which I have referred in my Report. You will no doubt be interested to know the present position. Inevitably, in any international organisation, because of the problems of travelling, language and expense, meetings of small groups of this kind can only be arranged somewhat infrequently and, therefore, progress is, perhaps, not as fast as one would like.

But I am happy to be able to report to you that with regard to the Commission dealing with "Safety, Loss Prevention and so on," in addition to holding what was a very successful seminar in Stockholm last year, it recommended to the Executive that machinery be established whereby co-operative insurers may exchange information and experience in these matters. The object of this exchange is that we can then circulate this information on aspects of loss prevention and so on. This recommendation has, naturally been accepted by the Executive and I will be writing to all Members shortly explaining the arrangement in more detail and what we would like you to do.

Regarding the Life Insurance Commission, a draft Report is in fact now under consideration by the members of that Commission and it is anticipated that the final Report will come before the Executive at its meeting early next year.

The Accident Commission has also begun its deliberations and it is hoped that we shall also receive their Report next year as well.

Finally, the Investment Commission. Owing to inevitable changes in the personnel on that Commission, it has been necessary to revise the composition of the members; but it has now arranged to commence its deliberations as soon as it possibly can.

So that, Ladies and Gentlemen, brings you up-to-date on the work of the Commissions.

The only other point of interest is that since the Report was prepared we have admitted a further Member and our membership is now 71 and not 70.

If there are any questions regarding the Report I will do my best to answer them.

CHAIRMAN: Well, the floor is open for discussion. No remarks? No questions? Then I will consider this Report is approved by the Conference.

4. International Co-operative Reinsurance Bureau Report

CHAIRMAN: We will pass now to the Report of the International Co-operative Reinsurance Bureau and I shall ask the very distinguished Secretary of the I.C.R.B., Mr. Knighton, to come up and present the Report.

MR. KNIGHTON: Mr. Chairman, and Fellow Delegates. In the past it has been customary for the Report of the I.C.R.B. to be introduced by Mr. Lemaire, who is the Chairman of the Reinsurance Bureau, but as he is occupying the Chair of this Conference it was felt more appropriate that I, as the Secretary of the Bureau, should introduce this Report. If you refer to the Report issued you will see, during the three years since the last Conference, how the activities of the Bureau have continued. A considerable number of changes have been made in existing treaties; some of them arising from changes from proportional reinsurance to non-proportional; some due to increases in underlying retentions; and others by virtue of changes in the class of operations conducted by the Member office. This, to some extent, explains the reason for the somewhat smaller number of reinsurance contracts in force in 1972 compared with 1969. But you will have observed, however, that the total annual premium income exchanged has increased quite substantially during this period. I think it will be generally agreed that an increase in the premium income of some 23½% is not an unsatisfactory outcome.

The distribution of contracts and premium income is an interesting exercise but the difference between 1969 and 1972 is not a significant one. What is interesting, I think, is the increased number of reinsurance contracts for Life reinsurance, because this is an area of our operations which is of comparatively recent origin. The number of offices exchanging Life reinsurance is now 19 and the premium volume exchanged during the past year amounts to £270,000.

You will also have noticed that during this period the treaties with the *Orissa*, the *Co-operative General* in India, and *East Pakistan C.I.S.*, have been terminated. Unfortunately, we found it was virtually impossible to operate reinsurance business effectively with the *Orissa*, and *East Pakistan C.I.S.*, because despite continued letters and cables we simply could not obtain adequate statistics, accounts and settlements, and consequently there was no alternative to bringing our relationship to a close. The *East Pakistan C.I.S.*, now Bangladesh, ceased to have reinsurance arrangements with us before the disaster which led to the creation of Bangladesh as a separate State. You will doubtless have read in your own national newspapers that insurance in Bangladesh has since been nationalised.

The nationalisation of non-Life insurance in India was put before the

Lok Sabha in May, 1972. It is intended to set up, in India, four separate Government insurance organisations operating in different parts of India, but in competition with one another. Although our exchange business with the *Co-operative General*, of Hyderabad, has already terminated, the action taken by the Indian Government will obviously affect the business which we have had for many years with the *Union C.I.S.*, of Bombay. This is, of course, rather disappointing to us because, as was reported at the last Conference, two years earlier in 1967 members of the I.C.R.B. Committee were invited to New Delhi, to meet representatives of the insurance co-operatives and officials of the Indian Government, to see whether or not any suggestions could be made to help insurance co-operatives, who at that time were under pressure from the *Life Insurance Company of India*, which had started to operate in the non-Life field and in particular in the co-operative sector. Several suggestions were made and we hoped that by amalgamation the Indian companies would have been able to play an active and co-operative part in any reorganisation of the insurance market in India. In correspondence that I have had with the Manager of the *Union C.I.S.*, Bombay, I have been told that co-operative interests will be observed in the re-arrangements, but so far I have had no details. From the information I recently received in the London Market there appears to be a possibility of a further postponement of the implementation of the legislation, which may mean a continuation of reinsurance with *Union C.I.S.*, Bombay, into 1973.

The *National Co-operative Insurance Society*, of Australia, which came into being in 1949, became a wholly-owned subsidiary of the *Co-operative Insurance Company of Australia*, Melbourne, in 1970. For a number of years the Reinsurance Bureau tried to arrange reciprocal exchanges of business with the C.I.C. but until last year all efforts had proved unsuccessful. When we learned of the proposed merger between the C.I.C. and the N.C.I.S. we realised that our reinsurance connections with the N.C.I.S. would most likely be absorbed with the reinsurance arrangements of the C.I.C. and we immediately approached the C.I.C. for a participation in their business. At that stage the C.I.C. were only prepared to offer a share of their First Surplus Treaty to C.I.S., Manchester, on reciprocal terms because of the long-standing connections between C.I.S. and N.C.I.S. and the part played by C.I.S. in launching that Company in Australia. Soon after the N.C.I.S. became a wholly-owned subsidiary of C.I.C. the latter Company was offered two very large Credit Union insurances. The reinsurance arrangements were offered to Members of the I.C.R.B. and, very largely because of the response from our Members, it was possible for a large proportion of this business to be reinsured within the Bureau. The amount was not only substantial but it was substantial enough to influence the London market to take the balance and thereby enable the C.I.C. to undertake these two very large insurances. I shall refer later to the further developments which are being negotiated with the C.I.C.

I will now turn to the "Facultative Facility" which is referred to in Item 2(b) of the Activities of the Bureau. Some little time ago, one of the Members of the Bureau offered a very substantial amount of proportional Facultative reinsurance to the Members of the Bureau because of the difficulties that they had experienced in placing the balance of cover in the professional market. It was found that the amount that Bureau Members

were prepared to accept was a good deal in excess of that expected and was in fact larger than the amount made available to the Member offices in the London market. Shortly after this experience, which incidentally fell to the ground because the business was not obtained, two of our Members entered into a mutual agreement to place Facultative cover one with the other. This appeared to have the possibility of extension to other Bureau Members and, as a result, it was decided by the Bureau Committee to appoint three reinsurance officials to investigate the possibility of setting up arrangements whereby automatic Facultative cover could be obtained by Member offices. You will have noticed that we refer to this as a "Facultative Facility." It was suggested originally that we should refer to it as a "Facultative Pool" but we felt the name that we have now decided on is, perhaps, more appropriate. We have all from time to time had experience of taking part in "Pools" and some of us know from bitter experience that when you jump into a pool you find it very much deeper than you expect and there are sometimes currents in the pool which you cannot see before you jump in. This may possibly be playing with words but I think that to describe this as a "Co-operative Pool" *might* give an undesirable impression to the insurance market.

The work undertaken by these three officials was long and difficult and we are grateful for their efforts and results which have been achieved. It has not been easy to reach complete agreement on every part of the treaty and consequently certain concessions have had to be made. Nevertheless, I am very grateful to those companies which now participate and for their willingness to enter into this experiment, which I feel could be of great assistance to Bureau offices. It may be wondered why it has taken so long to get the "Facility" off the ground, but we have conducted our negotiations by correspondence and this inevitably takes some time. The success of the "Facultative Facility" will depend, very largely, upon the quality of the business which is ceded to it, but if it gets off the ground to a good start there is no reason why it should not be extended in size, and also, of course, other Members may feel inclined to participate. At the time of making this report the cessions up to and including the 1st October were 68, generating a premium of approximately £7,000. This, after all, was only brought into force on 1st April so there has already been a satisfactory response.

One particular problem arose concerning the use of Probable Maximum Loss and many of you will already have read the Paper presented to the Reinsurance Offices Association by Mr. Tore Melgard of *Storbrand*. Because of the problems that the use of P.M.L. would create it was decided to use the Total Sums Insured as a basis for the time being and until we can decide whether the "Facility" is operating on a successful basis.

Since the Bureau Committee first decided to explore the possibilities of a "Facultative Facility" there have been changes in the reinsurance market and the problem of capacity in some areas has to some extent become less difficult. The problem of capacity is largely bound up with profitability and the ability to increase reserves to match the higher exposure undertaken by insurers. Once, therefore, the direct writing insurers get to grips with the essential problem of adequate rating, the problem of capacity becomes less difficult, but there is, however, the everlasting problem of

inflation and the continuing demand for higher and higher covers to protect massive buildings, massive aeroplanes and massive ships, apart from high excess covers on liability business.

You will have observed from the printed Report that the Bureau Committee have, since the last Congress, held their annual meetings at Columbus, Bologna and Wiesbaden. In 1970 the members of the Committee visited Quebec, Montreal, Guelph, Regina, Winnipeg, St. Paul and Detroit. We held discussions with the officials of insurance co-operatives at these various cities, with the object of demonstrating our interest in their reinsurance problems and also with a view to stimulating further exchanges of business with our Members. We are particularly interested in our visit to Winnipeg where the *Pool Insurance Company* indicated the possibility of reviving their participation in the Bureau. The *Pool of Winnipeg*, you may remember, transferred their reinsurance programme to Lloyds some years ago on an Excess of Loss basis.

In March, 1972, the Chairman and myself visited Australia, primarily to discuss an exchange of business with the *Co-operative Insurance Company of Australia*, in Melbourne. This Company was extremely grateful for the assistance given by Bureau Members in placing their Credit Union reinsurance and were anxious to offer a share of their Fire First Surplus reinsurance to those offices which had accepted a share of the Credit Union business. Mr. Lemaire and myself were cordially received in Melbourne by Mr. Hodgkinson, The General Manager, and we are at present negotiating with him concerning the placing of a share of the reinsurance from his Company with our Members. We also took the opportunity of calling on the *Westralian Farmers* in Perth. *Westralian Farmers*, now a Member of the Insurance Committee, has a large and active Insurance Department based on traditional co-operative lines and we felt it was desirable to explain the activities of the Reinsurance Bureau with a view, perhaps, to taking a share of their business at an opportune moment.

We also called on the *Farmers and Graziers Insurance Company*, in Sidney, where again, in future, we may be able to participate in their reinsurance programme. *Farmers and Graziers* operates on very similar lines to *Westralian Farmers* but at present have no links with the I.C.A. The President and the Manager of the Insurance Department were both interested in the activities of the Insurance Committee and our visit was well received.

We also took the opportunity of calling on our friends in Tokyo, where we were cordially received by Mr. Yamanaka and his officials. As a consequence we have circulated our Members and have been able to inform *Zenkyoren* that a larger share of the Catastrophe cover can be absorbed by the Bureau, which may in turn lead to a larger participation in the N.A.I.A. Quota Share Treaty.

During the three years since the last Conference the Committee of the Bureau have, I think, been reasonably active in trying to extend our operations, although of course we do not pretend to be a selling organisation. The I.C.R.B. was set up with the object of providing a medium whereby insurance co-operatives throughout the world can exchange reinsurance on reciprocal terms, thereby retaining reinsurance in the co-operative sector which would otherwise flow to the professional market

Members can call upon the Secretariat for any advice or assistance, and know that if they have reinsurance business to place that we have the facilities to transmit this to our Members, bearing in mind our specialist experience of the types of business that we know are either acceptable or non-acceptable to our Members.

I have spoken briefly about the past three years' activities but purposely refrained from making a historical survey of the I.C.R.B. operations since inception. I have tried to explain our present position and now pose the question—"What of the future?"

I am looking forward to hearing from the Development Bureau on the subject of developing insurance co-operatives in Africa and other parts of the world, but we must realise that in many developing countries the Governments are anxious to retain valuable currency within their own country. Our field is therefore somewhat restricted. At the last Conference Mr. Lemaire referred to the possibility of Members undertaking Excess of Loss reinsurance and our officials have discussed this at their meetings, but Excess of Loss, especially liability covers in an inflationary economy, is not for the faint-hearted. Nevertheless, certain Members of the Bureau are prepared to undertake Excess of Loss reinsurance, provided, of course, that it is properly rated. Another possibility was the extension of Life reinsurance exchanges and, as I said earlier, this has been a successful enterprise and one which is capable of further extension. I think, also, that with the values of currency changing, with inflationary trends, Members could well review their present reinsurance arrangements and see whether, in the light of changed circumstances, they can readjust their shares to Members of the I.C.R.B. who may be willing to accept higher commitments.

Although, as insurance officials, we all like to see progress, I do not think we should judge the success of the Bureau solely on whether we have increased premium exchanges. We should, in my view, ask ourselves—"Is the Bureau offering the type and quality of service that the Members need?" If the answer is in the affirmative, then naturally we are pleased; but if the answer is in the negative, then how can we improve the insurance facilities to our members?

CHAIRMAN: Although the report of the I.C.R.B. is not submitted for approval to the Conference we will welcome any questions that you might like to put to the reporter. Does anyone want to ask any questions?

MR. DEBRUNNER: I would like to take this opportunity, although in *Coop-Leben* we do not have a great deal of reinsurance business, to thank the Reinsurance Bureau and its Committee for the work it has done in the last few years. We, in Switzerland, are firmly convinced that the Reinsurance Bureau has done extremely good work and we have now heard from the speaker just how successful it has been. If the question is asked—"Is reinsurance important in our own circle?"—then I would like to say that this question can be positively answered in the affirmative.

Coop-Leben in Switzerland is concerned only with Life insurance and I would like to refer to a small point in the Reinsurance Bureau Report where it states that an exchange of Life reinsurance has been commenced

with *Coop-Leben*. I would confirm that talks were initiated with the Chairman of the Reinsurance Bureau, our friend Raymond Lemaire, but I would not go so far as to state that an exchange of reinsurance has taken place. In the talks with Mr. Lemaire we referred to specific points and difficulties which characterise the Swiss situation. In the name of *Coop-Leben* I would like to say that we are quite willing to resume these discussions and in concrete cases to test whether we should have quoted reinsurance. This is the small point which I wish to add to the written Report.

CHAIRMAN: In reply to Mr. Debrunner I would confirm that contact between the Reinsurance Bureau and *Coop-Leben* is limited to Life insurance. It is with a great deal of pleasure that we take note that we should continue our discussions and I should like to thank Mr. Debrunner for the interest he has shown in the matter.

Any further questions? No? Then I consider that the Report is noted by the Conference and I will express to Mr. Knighton our congratulations on this excellent Report.

5. Insurance Development Bureau Report

We come to the next item on the Agenda, the Insurance Development Bureau Report by Mr. Back, its Chairman and Secretary.

MR. BACK: Dear Co-operators. In presenting the written Report which you have already received I should like to comment upon some topical aspects of our work within the I.D.B.

At the Hamburg Conference we reported that the formation of new insurance companies in developing countries had been hindered by political development in some countries. However, this did not discourage us to continue our work in the development of co-operative insurance. During the three-year period now under review, we have reported that two insurance co-operatives were formed, one in Ecuador and one in Singapore. In fact, it is three, as the Society in Colombia was officially started after 1969. In the Ecuador case a loan guaranty was provided by *Allnations, Inc.* The North American companies have been actively involved in carrying out the formation of that Society; also *Cuna Mutual* has supported the Society by helping in capitalisation.

Besides the insurance agency set up within the Kenya National Federation it should also be reported that an insurance department has been established within the *Credit Union League* in Guatemala. The political development once again postponed the formation of a society in Ghana and Uganda.

In several other countries the co-operative movements are keen to have their own insurance operations. It is here we have to solve certain problems, especially those of providing experts to work with new insurance co-operatives to be formed, and/or training the employees of these societies. The Development Bureau has sent out a questionnaire to the Member societies on the technical assistance requirements. Several Members have been providing such assistance already. Especially I would like to mention

the contribution made by the American Member societies towards the development of co-operative insurance in Latin America. For anyone who is interested, statistical information is available on the insurance development in that region.

In several countries of Africa and Asia there are possibilities of co-operative insurance operations to become a reality in the next few years. In the Development Bureau we are, therefore, anxious that Member societies come forward and make concerted efforts to help. In collaboration with the I.C.A. office for East and Central Africa, the I.D.B. organised the seminar on "Risk management and co-operative insurance" for East African countries in Nairobi, in January, 1972. The seminar was successful with full participation. Three delegates from Ghana, in West Africa, also took part. The organisations represented at the seminar are now preparing the co-operative insurance. The Kenyan co-operators have set up an advisory committee to plan the forecoming of their society.

The I.D.B. is planning a seminar on "Machinery and engineering insurance" to be held in 1973. This is more for the developed Member societies, of course. In our respective movements there are large co-operative plants, machines, etc., which need such insurance. The seminar is, therefore, intended to widen our knowledge so that we can better arrange the needed insurance covers. Active participation of Member societies in this event will, therefore, be necessary to discuss jointly the problems involved.

You may all know that the Executive Committee has granted funds towards the I.D.B. activities. However, the major part of the cost of the I.D.B. has so far been paid directly by Member societies involved and by "aid programmes." The fund provided by the Executive Committee related to expenses for undertaking feasibility studies and for scholarships for training. One scholarship was granted to a Chilean co-operator, who is now undergoing training in the United States.

This ends the report from the Development Bureau and I am willing to answer questions if I am able.

CHAIRMAN: Well, Gentlemen, this Report is ready to be discussed. Any questions or comments? No questions? Well, as you have nothing to say, I consider that you have noted the Report and approved the action of the I.D.B. Thank you very much Mr. Back for the work done by your Sub-Committee.

6. Financial Statement

We come now to the next point on the Agenda, the Financial Statement by Mr. Maurer, the Treasurer.

MR. MAURER: Mr. Chairman, Dear Friends. It is a real pleasure for your Treasurer to report that the Insurance Committee is in sound condition financially. When you will kindly have a look into the accounts, which have been distributed to you by our Secretary, for the past three years you will see that the fees paid by our Member societies have increased from 64,000 Sw. Frs. in 1969 to 81,000 Sw. Frs. in 1971. It is an increase of 26%.

This is partly due to an increase in the number of Members, which is now 71 as you have heard, and partly due to the fact that many of our Members have considerably increased their premium incomes. Fees depend on the premium incomes.

If we turn to the expenses, you will find that they vary from year to year and used to be highest every three years when there is a full Conference.

The total of assets has increased from 308,000 Sw. Frs., at the beginning of 1969, to 437,000 Sw. Frs. at the end of 1971. It is an increase of 42% within three years. To give you an actual figure at the present time, the assets amount to some 480,000 Sw. Frs., which is equivalent to about £47,000, or to U.S \$126,000. Out of this amount we shall have to pay the expenses of this Conference, which probably will cost some 50,000 Sw Frs., this is a rough estimate, so that the increase of assets this year may finally be very small or even zero. The funds which will remain at our disposal, more than 400,000 Sw. Frs., are however, still fairly convenient. They will easily allow you to consider favourably the proposal which will be brought before you later on, during this Conference, by Mr. Back in the name of the Executive Committee and of the Insurance Development Bureau, regarding the creation of a " Risk Fund ".

We have been very lucky in so far as most of our money has been invested with the *Swiss Co-operative Bank*, that means in Swiss Francs: and, as you know, Swiss Francs have not been suffering from the recent currency depreciations.

I would add that the books and accounts of your Treasury are regularly audited by the auditing organisation of the *Union of Swiss Cooperators* which is legally authorised. Our Chairman has with him the last Report of these Auditors (Appendix 5) and I am sure he will be prepared to say more about it if you ask him to do so.

When concluding I would like to thank all Members for their co-operation. Most contributions have been paid very promptly and so far no Member society has had to be cancelled from the Member list for lack of payment. Mr. Chairman, this ends the Treasurer's report.

CHAIRMAN: Thank you Mr. Maurer. I very willingly confirm that I have received the Auditors' Report which expresses entire satisfaction with the accounts of the Insurance Committee. Any questions? Then I would like to thank you very much Mr. Maurer for the excellent work you have done as Treasurer.

7. Allnations, Inc. Report

CHAIRMAN: And we come now to the next item, the *Allnations, Inc.* Report by Mr. Johnson, President of *Allnations*.

MR. JOHNSON: Mr. Chairman, Good Friends. The Annual Meeting for the Shareholders of *Allnations, Inc.* is usually held in conjunction with the annual meeting of the Insurance Executive. At these meetings many of the shareholding societies are represented by proxy. Today you are represented by your own officials and it is a particular pleasure to take the occasion of

this meeting to welcome the Sixth Annual Meeting of Shareholders which will be held tomorrow afternoon.

Our shareholder group has authorised the issue of 3,000 shares for the development of capital and paid in surplus to total U.S. \$300,000. At the time we last met as part of the I.C.A. Congress programme in Hamburg we had proceeded only through the sale of 1,975 shares to a total capital and surplus of U.S. \$197,500. Since then your purchases of shares and those of the other Member societies has virtually completed the authorised capitalisation. A total now of 2,996 of the 3,000 shares authorised have been purchased, with a total capital input, then, from the Members of the Insurance Committee of U.S. \$299,600. This achievement reflects contribution from a far-flung group, 45 of our fellow insurance co-operatives in 21 countries. We should take pride in the fact that the formation and capitalisation of *Allnations, Inc.* represents the combined and co-ordinated effort of so many co-operative insurance societies, large and small, from all around the world.

It will be useful to recall that *Allnations, Inc.* hold as its fundamental purpose to assist in creating new co-operative insurance societies by guaranteeing loans and by providing technical aid to well-established co-operatives in the so-called developing countries. As of today we can point to only one insurance co-operative society which has been formed with the assistance of *Allnations*. In Quito, Ecuador, the *Cooperativa de Seguros del Ecuador* was founded early in 1971. It was formed by the *Credit Union Federation of Ecuador* with the assistance of a loan by the *International Co-operative Bank* backed by an *Allnations* guaranty. This new insurance co-operative has been quite successful over its first 18 months of operation; so much so, in fact, that repayment of its loan is ahead of normal schedule.

I want to report a side-light in connection with this operation. *Allnations* has been instrumental in arranging a programme of training for one of the Management staff at this new insurance co-operative. For training in the specialised areas of Group Life, Credit Union fidelity bonds, other co-operative insurance companies and a couple of non-co-operative or private insurance companies have been enlisted to provide a concentrated training programme covering six months in Puerto Rico on the U.S. Continent. *League Life*, of Detroit, *Cuna Mutual Insurance Society*, the *Cooperativa de Seguros de Vida*, of Puerto Rico, the *Cooperativa de Seguros Multiples*, of Puerto Rico and my own company, *Nationwide*, are the co-operatives involved in this training for Mr. Sixto Davalos.

In another training effort, and operating as a delegate for the I.D.B., *Allnations* has been engaged in an effort to develop a more extensive training programme, again with Latin American emphasis. This project anticipates a longer range approach. The programme would cover up to 30 months and would offer a combination of classroom or theoretical training, with on-the-job training in Puerto Rico. Intended to be broad in scope it will offer training in all facets of insurance operation. Employees from insurance co-operatives throughout Latin America have been asked to indicate their interest in such a programme, if financing can be arranged to permit participation without cost to the individual trainee for two years' co-operative training; and we are looking for the money now. We have not

been overwhelmed by the response from Latin America but a sufficient show of interest has developed to warrant continuing our efforts. This programme is of sufficient value to the total co-operative effort in Latin America that I shall be asking your *Allnations* Board to approve a contribution to the total funding when it meets tomorrow or the next day. Funds are being sought, as well, from the United States "A.I.D."; from the Swedish Government Assistant Development Funds; and from any one of the Societies in attendance here. Certainly a unified financial support should be sought from the Insurance Committee but if any Member society has a separate programme for aid to training effort it will be of great help to us if you will keep this project in mind.

Aside from these specifics, *Allnations* has been on activity largely in the management of its assets as an investment fund. Our Treasurer, Mr. Maurer, will more fully cover that aspect of operation.

Naturally, we are concerned that the several new situations referred to by Mr. Back, in his report for I.D.B., can be brought to fruitful conclusion. *Allnations* is prepared to be of help in any fashion recommended by the Development Bureau and approved by the Executive.

Later in this Conference the Agenda calls for a discussion of a "Risk Fund" which will be helpful in creating greater opportunity for *Allnations* in bringing about new insurance co-operatives. In your roles as Members of the Insurance Committee, and as *Allnations* shareholders also, I hope you will support these outlooks that promise a more aggressive effort in the expansion of insurance co-operatives worldwide. Thank you very much for your attention.

CHAIRMAN: Thank you Mr. Johnson. Does any one of you want to put any questions concerning the *Allnations* operation? Although we are not at the General Assembly of *Allnations* your questions will be welcome. No questions? Then you will note the report of the President, Mr. Johnson.

8. Amendment of Rules

And we come now to Item (8) on the Agenda, Amendment of Rules. I shall ask the Secretary, Mr. Seeley, to introduce this item.

MR. SEELEY: Hello Delegates. I will try and help to take us through the next item on the Agenda. Of necessity it is rather long and rather legalistic, but when one examines rules and makes changes one tries to be rather careful about the wording because it has to last and its got to work.

Starting first of all with the proposed amendment to Rule 3. I ought, perhaps, very briefly give you the background for the proposal to amend this rule. It arose out of the proposal by the I.C.A. to revise the basis of their subscriptions. The last Executive meeting in Rome took place in January, 1972, before it was possible to study in detail the effect of the I.C.A. proposals; but since then a very thorough examination of the current position and of the effect on our Members of the I.C.A. proposals has been made. We found that contributions to the I.C.A. by Members of the

Insurance Committee were made in various ways: some Members contribute direct; others contribute through their Apex or National Co-operative organisation; and some make no contribution whatever. It was also doubtful in some instances if contributions to the I.C.A. were in all cases calculated in accordance with the formula set out in the Rules of the I.C.A. Furthermore, the Executive realised that the contributions proposed by the I.C.A. would mean increased subscriptions by the very small societies who were the ones least able to pay and they also realised that the proposals meant some rapid increases in the level of contributions from a lot more of our Members. Taking all these points into consideration your Executive investigated several alternative arrangements and we eventually decided to present to you the arrangement which has been set out in the Agenda and more fully explained in the Memorandum to the Agenda. The Executive still consider that our proposal has many advantages, not least that it would result in a much higher contribution to the I.C.A. from our Members and furthermore it would ensure contribution to the I.C.A. from all our Members, which is not the case at present. We have now learned that the I.C.A. prefer to continue on the present basis of collection of their subscriptions, although this would clearly result in a lower total contribution from the Insurance Committee Members. I find it somewhat difficult to comprehend the logic of this decision when our intention was clearly to provide more cash for the I.C.A. However, the examination of the proposition by the I.C.A. also highlighted the fact that the subscription to the I.C.A. is no less than four times, or thereabouts, the amount you have to pay to the Insurance Committee. I should also remind you that the Insurance Committee, you in fact, bear all the cost of our own Conferences and of the cost of the programme of help to under-developed countries under the auspices of the I.D.B. and *Allnations*. I said earlier it is a little difficult to understand why the I.C.A. declined to accept our proposals for collecting subscriptions on their behalf, but that is apparently their decision, so in the light of this reluctance by the I.C.A. Executive, your own Executive at our meeting yesterday decided that we would now abandon our offer to collect subscriptions for the I.C.A.; but we did not accept the proposed formula for I.C.A. subscriptions from our Members and we decided to recommend to you, instead of the recommendations on your papers, that you authorise the Executive Committee to examine the formula for subscriptions to the I.C.A. by Insurance Committee Members and to submit revised proposals to the I.C.A. at the next meeting of their Executive Committee, in New York early in 1973, bearing in mind particularly the problems of the smaller society Members of the Insurance Committee and the disproportionate effect of the current I.C.A. proposals on the very large societies. Thus, the proposals now before you are amended and simplified in that you are asked to retain without alteration the present basis of contribution to the Insurance Committee and you are also asked to authorise the Executive Committee to present revised proposals on your behalf to the I.C.A. in respect of your subscriptions to the I.C.A. The method of payment of the subscriptions to the I.C.A. to remain as at present, that is, those Members who pay direct continue to do so and those who pay through the Apex organisation to continue to make their contributions in that form. I would just say that we would hope that those Members of the

Insurance Committee who do not at present contribute to the I.C.A. may find it possible to become members, either direct members or through their national organisation, of the I.C.A. and therefore make their contribution to the I.C.A.

CHAIRMAN: Does any one of you want to put any questions? If this is not the case I would submit for your approval the proposal formulated by the Secretary, in other words keeping the present wording and giving authority to the Executive Committee to try to formulate another way which is more suitable for the interest of both organisations. If you approve this proposal I would like now a vote. Those who are in favour of this proposal will please raise their Voting card. Votes against it? Abstentions? Unanimously approved. Will you proceed with the next point, Mr. Secretary?

MR. SEELEY: I will now deal with the amendment proposed to Rule 4. You will have noticed that we are recommending a small increase in the membership of the Executive Committee. The present number has been in operation for many years and the Executive feel that with the increase in the number of Members it would be useful if we could be permitted to increase the number of members of the Executive Committee so that we can get not only additional people to help in the work but so that we can also reflect even more the proper geographical spread of membership of the Executive Committee. So we now propose that we alter Rule 4 to allow up to nine members on the Executive Committee. It does not necessarily follow that we would require to have nine members immediately but it does give us the facility in future to do so should you consider it advisable.

Your present Executive at its meeting yesterday considered the representation on a geographical basis and considered that at the present time it would be no disadvantage to have only eight members on the new Executive Committee you will elect later on at this Conference, leaving one position vacant to be filled at some future time by a representative from South America, possibly from the *Asociacion Argentina* when it has appointed a successor to Mr. Colabella.

CHAIRMAN: You have now heard why it is proposed to amend Rule 4 to increase the members on the Executive Committee up to nine. May I have a proposer? Proposed. A seconder? Seconded. Are there any comments?

I now ask you to vote on this proposal by holding up your Voting cards. Anyone against? None. Any abstentions? None. It would appear that you accept this amendment which is therefore passed unanimously. Will you please proceed to the next point, Mr. Seeley?

MR. SEELEY: The next item is to give authority to the Executive to appoint, if we require it, an Assistant Secretary and Assistant Treasurer. Inevitably you will appreciate that the work of the Executive seems to increase, and we are very glad that it does so, but it needs more people to assist in the work. In fact we have rather, as we say, 'jumped the gun'

and you have already, both in Hamburg and here, met Mr. Edwards, but we hope you do not mind that he is already on the table here because I can tell you it is very essential that he should be, so I hope you will approve the authority to the Executive so that we can have not only Secretaries and Treasurers but Assistants as well.

CHAIRMAN: Anyone against this? No? Then it's unanimously approved. Will you now deal with Rule 5, Mr. Secretary?

MR. SEELEY: I now come to the amendment to Rule 5. You will see that we are suggesting an alteration to the Rule about holding our Conferences. At the I.C.A. Congress this week it was agreed that in future the I.C.A. Congress would be held every four years. We knew of this possibility in the Executive and therefore we considered what effect it would have on us. We wondered whether you would be happy in having to wait a further year before there was an opportunity to meet again. So we intend to explore the possibility of having, not a full Conference, but some kind of meeting—we won't call it seminar but we thought it could be an intermediate Conference—between Conferences, rather than wait for four years. In other words, we are exploring the possibility of having an intermediate Conference in two years rather than wait four years for a full Conference. With regard to the venue of the Conference we naturally feel it would be useful to hold our main or full Conference at the same time and place as the *International Co-operative Alliance Congress*, but we think it would be better facilitate our operations if we were not rigidly tied to this commitment. It is not intended, for instance, to hold our next full Conference other than at the same time and place as the next I.C.A. Congress, which I think is in Paris in four years' time; but we would like to have that little bit of flexibility in regard to the time and place for our Conferences.

CHAIRMAN: Does anyone object against that proposal? No objection? Then I consider this carried.

MR. SEELEY: Now with regard to the voting arrangements, Mr. Edwards mentioned that at previous Conferences a little confusion did arise as to voting. So already you can see we have tried to ensure that the matter is simplified. We also examined the voting arrangements which the I.C.A. had for their Congresses and recognised that their practical experience was of great value. And so, after consulting the I.C.A., we decided to bring before you the proposal to alter our voting arrangements in accordance with the plan set out before you. It is simply aimed to facilitate the conduct of our business and to reflect the voting strength a little more accurately than simply one vote per member when, as was explained earlier, you can have a large number of small companies each with one vote in one country whereas in another country there is only one organisation and they too only have one vote; so we followed the same principle as used by the I.C.A. On this item, of course, voting is under the current system, namely one vote per Member.

MR. VANDERBEEK: Mr. Chairman, Gentlemen. There are two points to make. The first is that it would seem to me that since we have referred to the Executive the question of the dues it might be appropriate to refer this question to the Executive also, since the voting strength would be related to the dues. The second point is that it would seem to me that the proposal may, perhaps, go a little too far in that, if I understand the proposal correctly, it would appear that seven insurance companies or seven insurance groups would have over 50% of the voting strength, with three of those organisations having 30% of the total votes. It would seem to me that this is perhaps putting too many votes in the hands of too few organisations. It has been my feeling, having attended the last three Insurance Conference meetings, that we have had no real difficulty, even with the present arrangement, as far as deciding issues, since most issues appear to be decided unanimously. I personally would be in favour of a revision of the voting structure but I believe this should be referred to the Executive so that it can be related to the new structure proposal that they will be making to us, I assume some time next year after discussions with the I.C.A. Central Committee.

CHAIRMAN: Thank you, Mr. Vanderbeek. Any other question? Or objection? No. Mr. Seeley.

MR. SEELEY: Well, may I just reply briefly to Mr. Vanderbeek. I think, perhaps, he is a little confused in that the negotiations on the new proposals to the I.C.A. relate entirely to the subscription paid to the I.C.A. What we are dealing with now is voting in our Conferences and, of course, the voting rights proposed are based upon your contribution to the Insurance Committee and not on your subscriptions to the I.C.A. If I can just clarify that, there is no point in, as I see it, waiting until we have discussed the I.C.A. subscriptions. That will not affect the voting at this Conference, which it is proposed will be based on your contributions to the Insurance Committee. The Executive certainly examined many combinations of this system of voting and, as I said, we bore in mind how the voting is regulated at the I.C.A. and this was the conclusion that we came to, the one now before you. I do not think it gives anything like the preponderance of votes that Mr. Vanderbeek fears. There can be, naturally, with very large premium incomes quite considerable voting rights, but I think that there is a lot to be said for having some reflection in the voting strength of the amount of contribution made to the Insurance Committee. Now the other point was that we have not had any real difficulty in reaching decisions. That is very fortunate and we hope it will continue, but I always like to be prepared in advance for difficulties and I feel that it is much better to have got your rules sorted out in the atmosphere when there is no controversy. Therefore, I think it is much preferable that we should deal with this voting question now, when we are not faced with some difficulty that could arise. Fortunately, as you say, it has not arisen so far but it could do and I think we are much better to be prepared for it in advance.

CHAIRMAN: Mr. Vanderbeek, are you satisfied with the explanation of the Secretary?

MR. VANDERBEEK: I am satisfied in one part and not satisfied in the second part. Unless I am wrong, your example in your Memorandum on the Agenda would seem to indicate the correctness of my comments that three members would have 30% of the votes and if you included four additional Members you would have 36, if my arithmetic is correct, would have more than half the total votes on the basis that the largest groups are allowed up to a maximum of seven votes since 10% of the total voting strength of 71 members. Perhaps I am misreading it but this is the conclusion I came to. I realise that some of these numbers were changed by the size of the organisations. In our own case we would now have two votes, so we ourselves would get more votes, but it would seem to me that an arrangement where the maximum might be four votes might be more appropriate than the maximum being seven votes.

MR. SEELEY: May I explain this. The total votes, and we are basing this on the 1970 premium income, the total votes under the new proposal is 87 votes and there would be one Society with eight votes and three Societies with seven votes, and the next highest is five, then come an odd one with three and six with two votes and all the rest have one, so it's difficult to see how one could get a combination which would give anything like 40-odd votes, since they are to be very large ones. We have got three sevens, that's 21 and an eight so that's 29.

CHAIRMAN: Are you reckoning on 70 members Mr. Vanderbeek?

MR. VANDERBEEK: I was going on the basis of 71 members. Of course, if your new figure is going to be 87 it is going to change that somewhat, but does not change the basic principle that a small number of groups can in fact control the organisation. I don't want to imply that this would be against the organisation but I think, from a democratic standpoint and also from the standpoint of encouraging participation by the smaller and newer insurance co-operatives, it might be, I would say, a good idea, to look at it one more time. I realise the Executive has spent considerable time on this matter and it would seem though, in terms of the points that Mr. Seeley made earlier, that once you change a rule you should recognise it should be a rule to last, that we would not really be hurting ourselves to take another look, since most of the voting has already taken place at this meeting, and that if the Executive could come up with a revised recommendation, or even the same recommendation, this could perhaps be the first order of business at our next meeting, to decide the voting strength. My point is that I think we have perhaps gone a little overboard and as pointed out earlier, just what is good for the I.C.A. may very well not be what is good for the Insurance Committee.

MR. DEBRUNNER: Mr. Chairman, Dear Friends. I should like to say that the voting system we have had until now was not satisfactory and if I remember the various groups which have only one vote, if I understood correctly, then this is also not quite satisfactory but I am willing to say, as someone who supports democratic principles, that the new solution suggested is not one that I favour fully. I should like to ask, "Have we not studied if,

for each Member society, one could have one vote for each?—this, I think, would eliminate the disadvantages of the previous system and it would lead us to a situation where small members would feel, with reference to the weight of their vote, that they were not discriminated against. Therefore my question is—“ Was another solution, of one vote per one company or one society, studied and why would you not be in favour of such a solution?”

MR. SEELEY: The present position is that each society has one vote. What we are considering is the large range of contributions by the Members and, as I said earlier, I discussed with the I.C.A. their system of voting because they had the same position. They had one vote per member plus additional votes related to the contributions without limit. We are proposing that every Member has one vote and that Members, on this proposed formula, have additional votes relating to the size of their contributions to the Insurance Committee; but it is limited. The £135 figure is the same figure as is used by the I.C.A. We have kept as closely as we could, but we think we have been perhaps a little more democratic in that we have put a limit on the number of votes that the larger societies can have.

MR. GULDBERG: I am of the same opinion as Mr. Seeley, that you must have quite clear-cut rules for voting and that it is much better to make the rules while you are in agreement, because when the fighting starts it is quite impossible. On the other side, up to now we have always been of the same opinion, so it seems that it is rather an academic discussion. I think, on the other hand, that the point which Mr. Vanderbeek mentioned is rather important and I understand thinking like that, that the whole method be referred to the Executive Committee to give a new proposal to make up new rules, which would be submitted for the next meeting of the I.C.A. Insurance Committee. I think it would not be proper to give the Executive Committee power to decide on which rules should be used at the next meeting of the Insurance Committee because that would, I think, take away the essence of the General Meeting of the Committee that it should itself decide which rules should be used for the voting system. I think another point which is important is that I don't think an Actuary has been active in the proposal submitted. Anyway, I can't understand how the rule should work, maybe there is some misprint. I had a word with Mr. Maurer about it and he agreed that there is something that does not work here, but I think that as the old rules are still active as for paying the dues, then new rules have to be discussed thoroughly, or rather we have to wait and see what will be the rules for paying the dues to the Committee. I think there are two points here which we should ask the Executive Committee to look through and give a report which could be circulated to the Member organisations.

MR. SEELEY: Can I come back on this one? First of all, there is no connection at all between the I.C.A. subscriptions and the Insurance Committee contributions. There is no connection whatever between the proposal with regard to the I.C.A. subscriptions which you have referred to the Executive and the contributions to the Insurance Committee on

which these proposals are based. The second point, yes, we have had our Actuaries on this quite a lot and I think we have got all kinds of different alternatives down this side and this is the one that we finally agreed, so I can assure you that a lot of thought has gone into this.

MR. WHITEHEAD: Mr. President, I am sure Mr. Seeley would welcome an intervention on this matter only for a point of accuracy. He made reference to I.C.A. subscriptions. He indicated that the proposed rule followed the pattern of I.C.A. membership subscriptions but during the debate said that there was no upper limit on their voting. That is inaccurate. There is a limit, the maximum entitlement is 10, so there is a limit.

MR SEELEY: Thank you very much Mr. Whitehead. I had not interpreted the rules in quite that way and thank you for that information.

MR. MAURER: Mr. Guldberg said that I admitted that something was not very clear in the proposals and I have to explain that. The rule with £135 seems to be very reasonable, as far as I can see, when the base of calculations is on the old system of contributions—which we have up to now—and the maximum voting rights may be as we have proposed. I think that this can be easily defended and I shall say, later on, why.

After discussions with the I.C.A. about their subscriptions, a total contribution was proposed in the proposal to amend Rule 3. If that proposal had been passed, then the figure of £135 in the proposed amendment to Rule 5 would have been unreasonable because it would have increased the voting right tremendously. That was what I admitted, but now that the proposed amendment to Rule 3 has been withdrawn there is no longer any question of collecting the fees for the I.C.A. together with our own contributions. This question has now been settled and there is no need to bother about it.

I think the main question now is whether we prefer to have democratic or so-called democratic rule, each Society one vote. I admit this is considered to be good practising co-operation in the Co-operative Movement. But the I.C.A. does not have it. You may prefer that, but in my case I would say it would be necessary to make some reservations. We have here a rule that no Society, Association, Federation or Group of Societies should exceed 10% of the total votes. There has been some discussion about Groups of insurance societies. There are countries where there are many small societies and when they all come, all together, and join our Insurance Committee they could have 50 votes, because there are 50 small societies. I do not say which countries but there are countries; and in these cases we need some restriction so that, for instance, the C.I.S. in England, which is represented in our Committee, has only one vote and then these 50 small friendly societies together would have 50 votes. I think that would be not very convenient. So we need some restriction. This is one point. Of course, when we have one vote each company then we don't need the restriction that any one Society may not exceed 10% of the votes because no-one will exceed one vote; but the Association, Federation or Group of Societies should not exceed, I would even say in that case, 5% of the votes so that there is no domination possible by one Group. That is what I say but the

other question is a philosophic question. What do you prefer? One vote or do you recognise the size of the companies?

MR. JOHNSON: The basic thing we are trying to cure in this is the situation exemplified by the C.I.S. They do five different kinds of branches in one corporate entity, where in other countries it is necessary to have a separate corporate entity and thus have five memberships. So the weight, under the present rule, given to C.I.S. is one vote and the weight of the same Group with interlocking Management but doing those same five branches in five companies is five times the weight. That is the basic problem we are trying to cure. Now secondly, there is an equitable principle involved that those who supply the greatest degree of financial support to the programme and projects should have a little bit more to say about how the money is spent. As the largest contributor, and the only one affected by the 10% limitation, *Nationwide* were quite prepared to have the limitation lower and this was communicated in January to the Executive during the meeting in Rome. Without the limitation we would have had 21 votes instead of seven. After very much discussion, after having the Actuaries at C.I.S. go into it very thoroughly, it was the collective judgment of the Executive that a 10% limitation was the most fair level at which to limit, taking into consideration all factors involved and principally the factor that this is an entirely voluntary activity; nobody has to join in order to survive. So I doubt if we can play "pick a number here", frankly. We have done a lot of that.

MR. LECLERC: I fully agree with what has been said by Mr. Vanderbeek and I agree that the proposal which is before us now is taking us away very seriously from the very concept of one member one vote. I understand, of course, that the contributions paid and the various weight of the societies and membership should be borne in mind, but I simply wonder whether the 10%, or the figure of 10, could not be lowered; and then I believe that there should be, perhaps, a possibility or grounds for understanding and coming to terms.

CHAIRMAN: Mr. Leclerc, is your limitation by member or is it by country? It is only by member? Am I correct in my assumption?

MR. LECLERC: It could also be, after all, by country in order to reply to the remarks that were made a little while ago.

MR. SEELEY: I can't really see that it would be practicable to work out a scheme which would be limited by country. I think that the best way to resolve this situation is to consider, perhaps, that Mr. Vanderbeek has made an amendment to the proposition before you to the effect that the matter be reconsidered by the Executive and that the voting, of course, then remains as it is at present, one vote per member, but that the Executive come forward at the next meeting, which unfortunately will not be until four years for a full conference, and put forward some alternative to you.

CHAIRMAN: So if that is your wish, Mr. Vanderbeek, we could put that as an amendment to the proposition. Yes. I take it that someone is prepared

to second the amendment? Yes. Thank you. So you now have the amendment proposed by Mr. Vanderbeek in front of you, namely that the proposition be amended so that the question of voting be referred back to the Executive with a view to bringing forward at the next full Conference new proposals, bearing in mind what has been said.

Will the Conference approve this amendment, moved forward and seconded? Are there any votes against it? No? You are against, Mr. Hull. Any other objections? Mr. Knighton and Mr. Goppold. Well, I consider there is a vast majority to adopt this proposal of Mr. Vanderbeek and the Executive will reconsider the problem and will come with the new proposals to the next full Conference.

CHAIRMAN: We now come to the next point, Mr. Secretary.

MR. Seeley: You will see under Rule 10, which is proposed, that we have, I think, tried to remedy an omission from our rules in that as they stand at present they are rather simple, and certainly they have been effective, but maybe we shall have a situation, in fact unfortunately it does appear to be developing already with one Society, where for instance they do not continue payments. Under the present rules they just remain as members. We thought it was only right that again we should follow the practice of the I.C.A. and insert in the rules how to deal with membership in these various circumstances. That is the reason why we have proposed this additional Rule 10.

CHAIRMAN: Anyone second this proposal? Yes. Anyone ask any question on this problem? Are there any objections against the adoption of this proposal? Then it is carried.

9. New Name for “Insurance Committee of the I.C.A.”

I will now invite the Secretary to introduce the next item on the Agenda the new name for the “Insurance Committee of the I.C.A.”.

MR. SEELEY: With regard to the new name for the Insurance Committee, we have noted that the membership continues to increase and it seems to the Executive that, first of all, a Committee of 71 is certainly a large Committee and therefore one ought to consider whether the words “Insurance Committee” is an appropriate description of our association. We also thought that it would better reflect the activities and the standing of the association if we used a new description of ourselves, namely the “International Co-operative Insurance Federation”, and so we have put before you the proposal to change our name to a more grandiose name, but I think there are many advantages in it. I did talk to Dr. Saxena about it and he does not have objections. I thought, perhaps, this might be considered breaking a bit of new ground in that there are still other Auxiliary Committees; but we shall still be an auxiliary part of the I.C.A., but we shall change ourselves from a Committee to a Federation.

CHAIRMAN: Then the proposal is put forward. Seconded? Yes. It has been proposed and seconded. Does anyone wish to ask any questions?

MR. LECLERC: May I put a question? The word "Federation"—is it a good term for what we are, or should we not rather be called perhaps "Conference". "Federation", to me, is already a group of individual members. I just question the term.

CHAIRMAN: We have been looking for terms and terminology and why should we call it a "Committee" if it no longer corresponds to a Committee. So we had to look for different terms like "Association" and finally we agreed on the term "Federation" because it had the advantage of depicting what it means, a Federation of co-operative insurance interest of all the members. But also, on the other hand, the outside world and the non-co-operative world should know or better know that there is in this world a true international organisation which has a name which means something. A "Conference of Insurance Co-operatives" would not convey that meaning. We thought that "Federation" would be the best and the happiest.

May I now take a vote on this proposal, which has been proposed and seconded? No objection? No vote against it? So that new name adopted will be in the future the "International Co-operative Insurance Federation."

10. Establishment of a "Risk Fund"

CHAIRMAN: Now we come to Item (10), the establishment of a "Risk Fund", which will be introduced by Mr. Back.

MR. BACK: Dear Co-operators—Arising out of the recommendations of the Research sub-Committee, made at the Insurance Committee Conference in Bournemouth in 1963, it was then resolved to establish a Loan Guaranty Fund to help in the capitalisation of new insurance co-operatives. In order to issue clean-sight credit guaranties it was necessary that a Holding Company be created. *Allnations, Inc.* was thus established as a Stock corporation in the United States with its office in Columbus, Ohio. Shareholders of *Allnations* are the Members of the Insurance Committee. In addition, the Members of the Insurance Committee contributed yearly to the Loan Guaranty Fund. The total annual contribution is £2,000. The contributions started in 1964 for a period of 10 years. The final contribution to the Loan Guaranty Fund will this be made in 1973.

Allnations provides loan guaranties through co-operative societies in developing countries to meet the gap of capital requirements between what has been raised by the movement concerned, which should be at least 51% of the total amount needed, and the amount of guaranty capital under the insurance laws of the country. There are other conditions also of the loan guaranty and all these conditions should invariably be met.

Allnations had provided loan guaranty in one case and that was to the *Ecuador Credit Union Federation* when it established its own co-operative insurance society. Based on our experience in this case it seems that some cases can arise where the borrowing co-operative societies will not be able to meet the conditions of loan guaranty in full; particularly the condition of net worth which provides the basic security against default in repayment. When *Allnations* issues a loan guaranty the local co-operative society borrows the supplement capital from any normal sources, using its own collateral guaranty by *Allnations*. *Allnations* guarantees to repay the loan if the borrowing co-operative society should default.

Therefore, in order to promote the formation of new insurance co-operatives by helping in their capitalisation and at the same time giving *Allnations* additional security to that provided by the borrowing co-operative societies, we have been discussing in the I.D.B. and the Executive Committee the creation of a special fund. Thus in future, whilst providing loan guaranties, the conditions of a guaranty should be met as far as possible. In exceptional cases, for example where the net worth condition cannot be met and the loan amount cannot be secured by the borrowing organisation, for that part a loan guaranty by this special fund would be given.

The Executive propose the establishment of a special fund with the following proposals:

- (1) That a Risk Fund be set up under the control of the Executive Committee for use in situations where an applicant society for a loan to be guaranteed by *Allnations* is unable to meet all the conditions required by the *Allnations* regulations.
- (2) That an amount of U.S. \$25,000 from the assets of the International Co-operative Insurance Federation be allocated as a base for the Risk Fund.
- (3) That from completion of the period for contributions to the Loan Guaranty Fund in 1973 Members of the International Co-operative Insurance Federation shall continue subscribing at the same rate to the Risk Fund.

This means we will still be very careful with the investment you have made in *Allnations*. So if we really should take risks sometimes it should be through the special Risk Fund.

CHAIRMAN: Does anyone want to put questions about this proposal? No questions? Then the proposal is moved. You second it? Yes. Any questions? Will you now vote on the proposal to create a Risk Fund, which implies that you will contribute to the Risk Fund in the future as you did to the Loan Guaranty Fund and, further, that the Executive Committee be authorised to give out of the assets of the Insurance Committee an amount up to U.S. \$25,000 at the disposal of the Risk Fund. Those who are against it? Will you please raise your Voting cards? None. Any abstentions? None. Then I understand that you are willing to accept this proposal.

Now, Gentlemen, I proposed to adjourn the meeting and we can then start with the paper which will be presented this afternoon. I adjourn the meeting.

The meeting was adjourned for lunch at 12.30 hours.

The session was resumed at 14.30 hours.

11. Progressive Mechanisation and automation in co-operative insurance

CHAIRMAN: We now come to the first Paper on the Agenda, "Progressive mechanisation and automation in co-operative insurance" by Mr. Kularajah. I call now Mr. Kularajah.

MR. KULARAJAH: Mr. Chairman, Fellow Delegates. First of all it would appear that I have a lot of time. The Chairman has permitted me to speak as long as I can. He even tried to persuade me to read the Paper in full! Now, this is rather a predicament, because usually you can finish an introduction on a Paper by saying that you have very little time. This the first time I have been in such a dilemma—that I have plenty of time to speak—and I am wondering what to say. Wondering what to say because I have already prepared a Paper and it has been sent to all of you by the Secretariat. Furthermore, this Paper was actually intended for delegates who come from the smaller insurance societies, or more particularly from the insurance societies of the developing countries. It would appear that Malaysia's delegation is the only delegation from a developing country in this Conference, so what I am going to say must be said to ourselves, it would appear!

In any case, when I prepared the Paper I felt that it might be useful for circulation to the insurance societies from the developing countries in particular. And, therefore, I went into minute details to explain what a small co-operative insurance society should think; what the Management of a small co-operative insurance society should think; how much consideration they should give; and what actually they should do as they progress.

I hope that this Paper will be useful for the Insurance Development Bureau or those experts that may be called upon from time to time to call on the smaller co-operative insurance societies who may think of progressive mechanisation and automation in so far as their societies are concerned. As I told you, I am not going to read what has been circulated and I will therefore try to cover what I have said in a different way, perhaps taking into account the people present here.

Incidentally, about a week ago, the Manager of the Data Processing Centre of *Zenkyoren*, that is Mr. Yamanaka's Society, called at our office in Kuala Lumpur and said. "I notice that you are going to speak at this Insurance Committee Conference in Warsaw; may I see your computer centre?" When I told him that we had no computer centre he was amazed. You see, fortunately for me, the members of the Executive and myself had the good fortune to visit the Data Processing Centre of *Zenkyoren* at Atsugi, near Tokyo, two years ago and therefore I realised what he must have thought of us, specially my speaking on "Progressive mechanisation and automation in co-operative insurance" without having a data processing centre. I talked to him; I explained to him the reason why I had been assigned this task by the Executive. I don't know why, but I feel that it was

to put on record something which may be useful for the smaller co-operative insurance societies. And in any case, since most of you have not been to Tokyo, and even if you had gone to Tokyo maybe you had gone as a tourist, not having the privilege to visit this Data Processing Centre, I feel that I should tell you something about that Centre.

Zenkyoren have a big Data Processing Centre; a most modern computer centre. They have a large Univac 1108 computer, which was installed in 1969. They kept on convincing us, stressing and over-stressing and over-emphasising that they needed that computer because the total operation time comes to 65,000 to 70,000 minutes per month, so they said. They said the scheduling, as well as the utilising most effectively the A.S.U.P.—Automatic Scheduling Utility Programme—has been developed and is being used.

It had been decided to establish a nationwide “on-line system” by 1973 and a solution is under way. At present six terminals are already operating. What is the “on-line system”? Now, for the record, although I know most of you will know already, this type of system allows one to communicate directly with a large computer having large volumes of information stored on direct-access devices. The “on-line system” can supply the Head Office and every branch office with information. When an enquiry station located in a branch office is linked to a random-access device, via the direct transmission line, information on a policy can be immediately available. This system is one way to maintain over-the-counter service for policyholders and agents.

Now then, the computer and the various machines that we install and introduce are all for one purpose. What actually then is the importance of mechanisation and automation in co-operative insurance? I would say that it is to give the best service to policyholders at the lowest possible cost; to manage the business efficiently—and to do this you also need the information that you should get.

Mechanisation and automation in co-operative insurance is important for another reason. We, in the co-operative insurance societies, know that profits are not the most important factor. As far as the *Malaysian C.I.S.* is concerned, we realised 12 years ago that the policyholder is interested in the best service. In fact, the progress of the *M.C.I.S.* was mainly because of the dynamic service that we were able to give; which we were pleased to give; and we tried to give. If our policyholder does not get his claim paid without delay; if he cannot get his policy issued on time; if he does not get replies to his letters in time; if he is delayed when he calls at the Head Office for one thing or another; then he is a very dissatisfied policyholder. No amount of public relations will help. Even though you have a sound public relations system, a programme implemented, if the service to the policyholder is not good then the policyholder, and all around him, are going to think that the organisation is no good at all. Accordingly, it is necessary, particularly for co-operative insurance societies who have to serve their policyholders well, for them to resort to mechanisation to become more efficient and more effective. Let me, since I have the time, try to give you an example. Let me give you that example from the *M.C.I.S.* point of view. It is something I know and I am sure you will be pleased to hear about it. In the early days, when we were progressing and expanding

rather rapidly, we were issuing replies to policyholders in cyclostyle forms. Most of the letters were routine replies. We therefore used, say, Form No. 1, Form No. 2, Form No. 10 and so on and we were able to clear the replies promptly and as fast as we could; but then we soon discovered that the policyholder had a very poor opinion of the organisation. He did not realise that we were economising; that we saved money; that we saved expenses; and that the benefits derived from such economy would be for his benefit. He did not think of that. He said: "This insurance organisation is not capable; they do not know how to write letters; they use forms and they do not give me individual attention; they seem to have Forms and in answer to anything you write, you get a Form reply."

We realised, very soon, that something had to be done, but that if we had to give original replies, original letters, to each of them, then, we would need a big army of typists and, above all, the expenses would be very, very heavy indeed. We realised, of course, that it was important to send original letters and we looked around for assistance which would be applicable for this purpose. Worse still, we found that when we had recruited a few more staff to do this, that in the process we were making more mistakes. More time was spent on replies. We therefore decided, in the first instance, to hire a word-processing typewriter. This machine enables a typist to select from a wide range of standard paragraphs, which are typed automatically from a magnetic tape facility attached to the typewriter. We put down all the paragraphs from our cyclostyle forms on to the magnetic tape and then, by coding them in numbers, we were able to issue ordinary letters to our policyholders much faster than before. This word-processing typewriter types very fast, about 150 words per minute—and above all they do not make mistakes. You can sign blindly. You see, when I say "sign blindly", you may wonder why "signing." Again, the policyholder, particularly in a developing country—may be it is not so in the advanced countries—feels happier with a reply if it is signed by somebody, not rubber-stamped.

There was another aspect which became very important to us and which saved us a lot of trouble. In Malaysia, with a multi-racial population, we do business in four languages: English, Malay, Chinese and Tamil—an Indian language. The population is multi-racial and we have to do this. The word-processing typewriter came out extremely useful in connection with this, because, if you had to reply to someone with word-processing, shall we say Code No. 2, then all you had to do was to select the Malay case for the Malay letter and send it out. The translation was already done. You saved a lot of time in translation and even one who does not know the language can sign the letter because he knows that that number has been typed—it is secretly indicated on the letter what code has been used. This was, of course, an innovation as far as we were concerned and we were very pleased to the response. Everybody thought that they were very happy.

One particular aspect where we used this word-processing typewriter was in connection with our letters, particularly the General Manager's or the Sales Manager's, to our agents. Our agents are also human beings. When they get a cyclostyled letter they just throw it away. Most of them don't read it. But if they get a letter which appears to be original and has been signed by someone of importance, then they look at it. If a circular

letter has been signed, even by someone of importance, with a rubber stamp they don't look at it. We found that when we wanted to motivate them we could issue these original letters to our 300 agents quite easily. By now some of them know that we use the machine for this purpose—we tried to keep it away from them—and still the effect is good.

Another particular example of this innovation was our relationship with the co-operative societies in our country. We try to maintain a very close relationship with these co-operative societies, and for this purpose we send them circulars; newsletters; make requests from time to time, and so on. We found that our circulars which were cyclostyled or mimeographed, or even those printed on an off-set machine, were never given attention—even when we wanted their Committees to give consideration to some proposal we made. We found that if a request was made to a co-operative society in a mimeograph or in a cyclostyle letter, that letter was just filed away. But then we had the idea, let us write each of them an original letter and let us see what the effect is. Gentlemen, the effect was wonderful. We found that almost 95% of the societies had considered the request at their Committee Meetings; when previously not even 5% would consider such request. We were amazed at the result; and therefore we kept the secret and whenever we want their co-operation or decision on some matter or another we send them an original letter.

As a co-operative insurance society, and particularly as a new co-operative insurance society, we needed information for Management decisions. Perhaps, when a society becomes large, you may not need so much information as you need when you are a small organisation. We had to keep within the requirements of the law; within the budget, which is planned very strictly; we had to know how progress was going on month by month. Therefore getting information in time was a very, very big problem. Unless the information is got on time, that information may be useless for Management decision. We therefore gave a lot of emphasis on getting the information that was necessary, the information that was considered necessary after considerable review as to whether it was necessary, and we mechanised to a very large extent so far as this was concerned. As I said earlier, the important factor, of course, was the question of giving the best service with the minimum delay at the lowest possible cost. We used the analysis machines for receipting; we used the accounting machines for accounting functions; in other words, from using pre-printed receipts on our addressing machine we were able to get our income receipts recorded, analysed and accounted for. On the other hand, when payments were made we, through this accounting machine, particularly the Visible Record Computer, as it is called, were able to get the accounts up-to-date. When we were able to get the accounts up-to-date, naturally, we were able to get the information up-to-date and this served us very well indeed.

In this Paper I have mentioned in greater detail the machines that we use but what I would like to speak on now is the printing unit that we established. We have an inplant printing unit in the building and we found that this was very useful and economical, not only in money but in material—and this serves a very good purpose. We were so encouraged by the result of our own inplant machinery that we set up, with the co-operation of the

other co-operative societies, a Co-operative Printing Press which is now a very modern printing press and which saves us as much as 25 to 40% of the printing costs had we had our printing done elsewhere. Furthermore, it saves us having to stock large quantities of printing material, because since it is our printing workshop we are able to print just enough, or just what is estimated to be enough, for our use. It is true that we are an insurance society and you may ask why should we get involved in printing. But I am always reminded of what my friend, Mr. Klas Back says: "We, as an insurance company, must do other things in connection with our business; other things where we save money for our policyholders or improve the benefits for our policyholders."

In the same way, like him, like *The Folksam Group*, I mean, we have also helped set up a motor repair workshop which is to be operational in the course of this month and with the aim of not only giving better service to our policyholders but particularly to reduce motor repair costs. We hope that we will be able to achieve this as we go on. As an insurance company we feel that it is a responsibility that we should undertake in order that our policyholders get much better benefits than they would get otherwise.

Now, I had better watch my time. I hope I am not making you sleep, Gentlemen. Each procedure in automation must be carefully gone into. I must say that from the experience we have gained we must be slow but steady. Every function must be looked into to see whether it is necessary or whether it is one of habit, and, as with all things new which are of a complex nature, haste will cause the biggest waste. This is important and in conclusion let me summarise by saying that mechanisation and automation are important to co-operative insurance societies in order to:

- (1) increase operating efficiency and to reduce operating expenses;
- (2) improve accuracy and to reduce exposure to clerical errors;
- (3) be relieved from many personnel problems and training of staff;
- (4) relieve Managers from routine paperwork; and most important of all,
- (5) build fast, accurate processing and to service requests.

This is the foundation on which a sound relationship between the policyholder and the society can be brought up and maintained continuously. Thank you for your attention.

CHAIRMAN: Thank you very much Mr. Kularajah.

Gentlemen, I have three speakers who want to comment on Mr. Kularajah's Paper. I shall call first on Mr. Simon from *Coop-Leben*.

MR. SIMON: Mr. Chairman, Ladies and Gentlemen. With your permission I would like to say a few words about how the problem of computerisation was solved at *Coop-Leben* and in this connection I am basing myself on general remarks. I am not going to go into technical details.

Before the introduction of the computer system, which happened back in 1967, the *Coop-Leben* was administrating roughly 58,000 individual insurances and 220,000 collective insurances. The work which is being carried out today or taken over by computers was previously carried out by conventional machines and many were handled manually.

Now, if you will permit me, I would like to say a few words about the reasons why we introduced the computerisation or computers in the field of individual insurances. In the case of 50% of all insurances, premiums are being paid on a monthly basis. This meant that before the introduction of the computers roughly speaking 400,000 individual payments had to be handled. This, of course, as you can imagine, is very cumbersome and involved, and we soon reached the point where we were unable to do this work in the usual and conventional way within the required period of time.

Now, in the case of collective operations, in spite of the many collective insurances, there was less work to do since many policies are covered under one single insurance for which you have to have only one single premium bill. Now investigations have shown that the introduction and the use of a computer for the collection of the premium for individual insurances was absolutely indispensable in order that these operations should meet deadlines and should be carried out in a most rational fashion.

Our short-term aims were thus clear. In the beginning we only covered the individual insurances. In addition to the collection of existing premiums, new business also had to be dealt with by computer in order to do away with all duplication, but the ultimate aim was the complete handling of the usual working process by the computer. In order to co-ordinate the further operations we created a special study group and with your permission I will come back to the study group at a later stage.

Today we have installed the following installation after considering all our needs: we selected a data processing installation type I.B.M. 360 model 20 with a punch-card system. The installation consists of a central processing unit with a core storage which is able to accumulate 16,000 bytes; a multi-purpose punch-card unit; a punch-card reader; and a printer. As regards peripheral units we have added a card punch; a punch-card verifier; and a sorting machine. We are still working with the same installation today.

Now, how did we go about introducing the entire system? To start with we had to deal with the question of whether the introduction of a computer data processing was feasible with foreign experts or whether this should be carried out using our own specialists or experts. The specialists would certainly have brought along invaluable knowledge. On the other hand, however, they probably did not know much about our domestic or internal problems and would certainly not have had much knowledge about insurance business. Therefore, we decided to introduce the computer system with our own staff. On the basis of their qualifications and also their activities within the enterprise, we selected the staff from our own ranks and trained them to become analysts, programmers and operators by way of external Courses.

Then we had to undertake the necessary measures to guarantee a smooth change-over and a frictionless and smooth operation of the data processing. Now, retrospectively, we can state that this change-over took place without any major difficulties within the enterprise. We had no major difficulties that we could speak of.

These measures took the form of a study commission or study committee which had to deal with all the new problems that cropped up in this connection. On this study commission or committee, as we call it, we

had representatives from all sections of the enterprise which at a later stage were to be involved in one form or another with the data processing. The committee, which consisted of eight persons, and besides Managerial staff and the data processing staff proper we had also collaborators from the Financial Department; from the Department of Actuaries; from the Agents' Section; as well as from the Administrative Sections of the individual insurances.

This committee first determined and put down the objectives. We elaborated a time-table which envisaged and projected a step-by-step introduction of data processing. In this work we were seconded by the I.B.M. specialists, who rendered us invaluable help. The special problems were dealt with in so-called working groups and later on the same problems were taken to the study committee which dealt with them again. The results of this committee examination were then submitted to the Management which then had the last word.

Practice has shown that this kind of approach was the right one and during the preparatory work, of course, problems cropped up which were solved only thanks to a 100% familiarity of the various people involved with the whole business.

Now, Mr. Chairman and Gentlemen, may I qualify this by way of example from the collection of premiums. A special feature of the payment system throughout Switzerland is the use of the postal cheques. The majority of people in Switzerland pay bills through the post office into the postal cheque account of the receiver and therefore almost all premium bills of the Life and other insurances are being handled through the postal cheque accounts and this led us to adjust ourselves to the postal system. Even an adjustment or adaptation of the insurance conditions had to be carried out and this example showed that to be familiar with the internal problems of our own enterprise was more important than being familiar with the technical aspects of computers.

Another very important aspect was to orientate and train the corresponding staff and in this connection I would like to mention the excellent collaboration we had with I.B.M. For this purpose we organised and convened a so-called working conference and at this working conference we discussed the major and basic principles of data processing. This was presented in a very simplified way and our collaborators, both male and female, were thus briefed, if you wish, and familiarised with the very purpose and objectives of data processing as well as with the background to it. Moreover, these people participating at this working conference were able to ask questions very often. People were of the view that when introducing computerisation or data processing, that this was going hand in hand with dismissals but we were able to prove and to show that by introducing computers the need for staff did not decrease because it was precisely on account of the shortage of employees that we introduced data processing. However, we had to, as it were, retrain some of our staff members for their new posts under the computer system.

Concluding, Mr. Chairman, a few words about the present situation and our future task. We have today tackled and covered all the work which we considered necessary for individual insurances using computerisation, such as premium payments, including new business, renewal notices, expiry

lists, the three-monthly settling of accounts, technical annual balances and guarantee capital.

At the present time we are about to cover also with our computer the collective insurances. For this purpose, too, we have set up a new study committee. This committee is estimating the existing situation and will then determine the priority and urgency of the various jobs. This committee is again composed of representatives of the Management; from the data processing section; the collective insurances section; as well as from the Actuary's Department. The task distribution is similar to the one that we had for the study committee that dealt with the individual insurances.

Besides the preparatory work we also tried to find out how long the present installation will meet our needs and what other methods should be planned for after this period.

I trust that with these short and brief comments I was able to show you how we tackled the changeover to computerisation.

MR. GRAVELINE: Dear Delegates. In the preparation of the comments which I am now going to introduce I do not think that I have covered automation in all the co-operative insurance companies of Canada but I have selected a few examples, that is to say three examples. As you can imagine in a vast country such as Canada—we have more than 10 different co-operative insurance societies and there are three isolated very different ones—the sizes are not the same and the functions they fulfil are not the same either.

The first Company is the *Co-operative Insurance Services*, whose Headquarters cover 10 provinces of Canada and whose operations are Life insurance as well as general insurance. The total assets are \$92 Millions. It has 400,000 general insurance policies and 900,000 Life policies. The Credit Unions covered are 85. The sums insured by the Life policies total \$1,500 Millions.

The Company has its own computer system which operates 24 hours a day, seven days a week. The basic equipment is an I.B.M. 360 model 40 and as from 15th October next a computer I.B.M. 370 model HG will replace the present equipment. We obviously use magnetic tape and the heads as well and all the equipment makes it possible to have a very rapid reading.

There are several systems to deal with the various types of insurance. In general these systems supply the necessary information to the administration and to Government. Other systems exist for the pay-roll; investments, etc. In order to reduce the paper-work 14 terminals with visual screens are used at the Head Office. The staff can thus obtain information without going back to the files.

In view of the fact that communications are rather costly, terminals have been installed only in the Atlantic area. A perforated card system was installed at Moncton, which is more than 2,000 miles from Regina. This system enables the staff to obtain the necessary information on a policy and keep these policies up-to-date. As the volume of business in other areas is extended and as the cost of communication decreases, other terminals will be set up in other areas of the country. For the time being Telex is used as a means of communication between the Head Office and the branches.

This system enables us to furnish information in less than 24 hours and sometimes in only a few minutes.

A study which is now being carried out will indicate the possibility of printing reports on microfilm direct from the magnetic tape so that long reports can then be placed on microfilm instead of being printed on paper. The film can then be used to analyse these reports.

The operations as such are divided into sectors. First of all Life insurance. The various operations are: the invoicing; collection of premiums; the making of files; the preparation of cheques; the keeping up-to-date of loans on policies; keeping policies up-to-date; preparing the necessary statistics for administrative purposes; and the calculation and payment of commissions.

With car insurance, the system has been used to invoice the renewal of the policies for approximately eight years. One master plate used for this purpose contains approximately 85% of automobile policies. At the end of 1972 the system will have covered approximately 230,000 policies. The following operations are carried out; sending out renewal notices, daily, some three weeks before the date of expiry; collection of premiums; preparation of cover notes; the calculation and payment of commissions; preparation of statistics for administrative and Governmental purposes; and the preparation of a list of expired policies.

Fire insurance invoicing is done manually because the system is not automated. It prepares, however, a list of expiry dates so that staff can prepare renewal notices. The system keeps the files up-to-date; calculates and pays commissions and prepares statistics.

As regards claims a new system was set up in January, 1972. This gives adequate information to produce monthly reports on individual classes of business; regions, etc.; financial reports necessary for administration; and information required to deal with claims.

The second Company I wish to mention is the *Assurance-Vie Desjardins*. This is a Life insurance company with headquarters in Levis, in the Quebec Province. Its territory of operation is the Province of Quebec and several other Canadian Provinces. It deals in Life insurance and Health insurance. They have assets of approximately \$80 millions. The number of insured exceeds 2 million; the number of "caisses populaires" 1,300; and they have approximately 450 staff.

The A.V.D. has its own system and in addition to satisfying its own requirements it also provides services to other co-operative institutions of the *Desjardins* group. Approximately 50% of the machine time is devoted to A.V.D. business. The equipment used is an I.B.M. 370 model 145 as well as magnetic tapes, discs, etc., to achieve greater power and speed. Appendix A, which you will find at the end of my remarks, shows the structure of the information service provided by the A.V.D. This is serviced by a staff of 39.

The operation of the large majority of the business of the *Desjardins* Life insurance is mechanised, that is to say the setting up of files and keeping them up-to-date; invoicing; collection of premiums, etc. At the A.V.D. the volume of business is not too great but the lines of business are many: personal insurance; individual pensions; collective insurance; various types of pensions; supplementary pensions. Then there are loans and other

activities with the *Caisses Populaire*. We must also add general accountancy; mortgages; payment of salaries and addressing.

During 1971 more than 90,000 cheques were sent out. All the work at the end of the year for the 55,000 individual contracts; the production and impression of the summaries; and the detailed lists for the insurance supervisory body and for the Inland Revenue Department, is carried out in less than 16 hours of computer time.

The A.V.D. is used both by the *Caisses Populaire* and the A.V.D. Each undertaking has its own means of analysis, programming and punching, but the A.V.D. is responsible for servicing. The distribution of the costs of this section is regulated by agreement between these two Societies.

Another co-operative institution of the *Desjardins* group is *La Sécurité* in Montreal. Its computer is linked to the A.V.D. system by telecommunications and the increase of volume of work will also be dealt with.

During the last year the A.V.D. and the *Federation of Quebec of the Caisses Populaire Desjardins* have set up together a mechanised pay system.

Now we come to the insurance Company called U.C.C. with Headquarters in Montreal. They cover only the Province of Quebec. They have only Life insurance. They have assets of \$30 millions; 125,000 insured; and approximately 100 employees. And here we have a similarity with the Company of Mr. Kularajah, that is to say, we have no system as such, no electronic system at the U.C.C., but we have access to the services of another co-operative insurance company—the *Artisans Coopvie*. This enables the *Assurances U.C.C.* to be more effective than it would be if it relied only on its own means. Thus the U.C.C. has access to an I.B.M. 360 model 30.

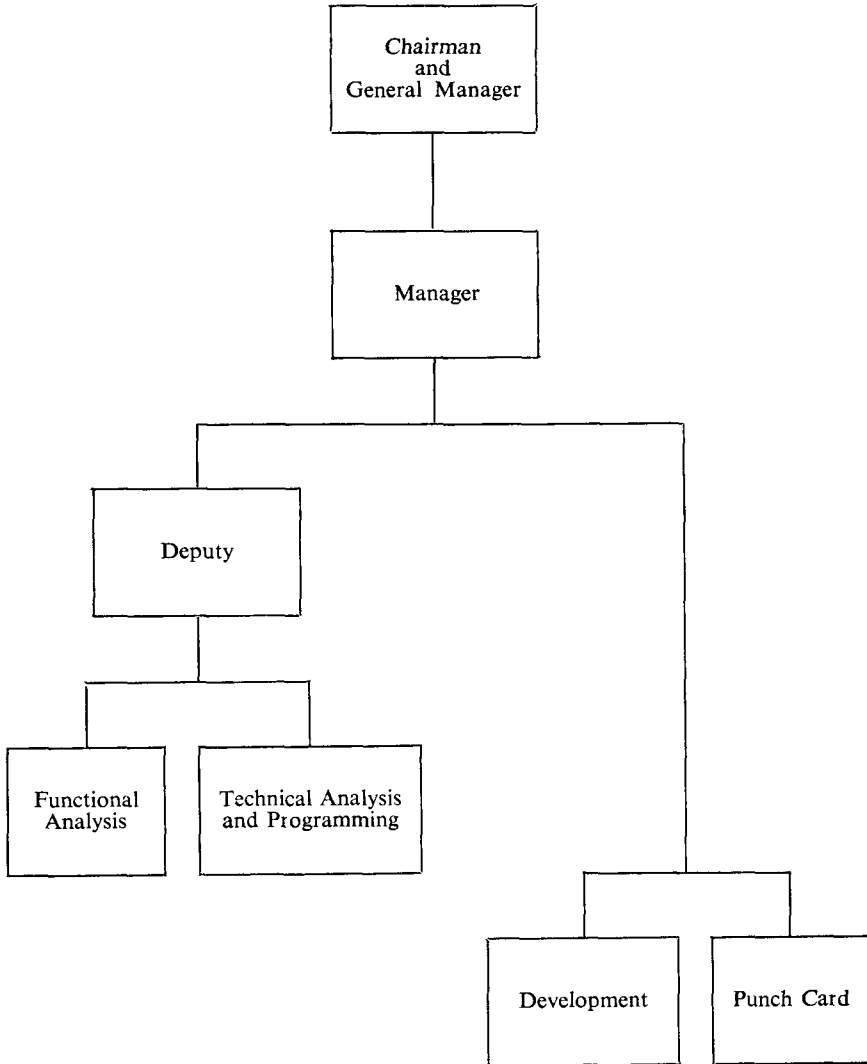
Under this method the U.C.C. needs only one employee acting as a liaison agent with *Les Artisans*. The annual cost of these services is approximately \$50,000 whereas the Company estimates that it would cost approximately \$90,000 to operate its own computer system.

The operations we undertake are of two types: work for current administration purposes and for long-term decisions. For current administration the following are involved: issuing premium changes; functions; cancellations; invoicing; payment or accumulation of dividends; the mathematical reserves, etc. As for long-term decisions we can say in this connection that we have forecast income and expenditures for the years ahead and obtained statistics on the effectiveness of sales; the income of certain areas; the question of the age of those insured, their families, etc.

The examples of the three companies which I have just quoted show three different ways of processing information. The first company has a very vast territory and its operations cover various Provinces of Canada; another company operates mainly in the Province of Quebec; and the third only in the Province of Quebec. C.I.S. has its own system devoted only to its own needs whereas the A.V.D. not only has its own service but provides services for others; and the U.C.C. has no system but uses the services of *Les Artisans Coopvie* and finds that this works very effectively. It is normal that in such a vast country as Canada, where we have different types of insurance co-operatives varying in age and size, there should exist as many different types of systems to meet their requirements.

Appendix A

Structure of Information Service at *L'Assurance-Vie Desjardins*.



CHAIRMAN: Thank you, Mr. Graveline.

Before we proceed with the speech by Mr. Goppold I would like to explain the procedure that we are going to follow now. After Mr. Goppold's speech we will have Mr. Hogan's Paper, which will certainly be very interesting. Mr. Weichert, Manager of *WARTA*, who is present here today, would like very much to explain to you the work of the Polish Insurance Market here in Poland, so I propose that after having heard Mr. Goppold we will then hear Mr. Hogan, and immediately after then we will hear Mr. Weichert. The discussion on Mr. Hogan's Paper will take place in the morning.

I will now ask the Secretary to make a further announcement.

MR. SEELEY: In connection with the *Allnations* meeting tomorrow, some of you have already handed in your proxy forms, but if any delegates have not yet handed them in it would help us very much if you could do so tonight before you leave, as it will facilitate the *Allnations* meeting tomorrow.

I would again remind you of the nominations to the Executive. We have already had eight nominations, but if there are any other nominations it would help if you would let me have them before you leave tonight.

CHAIRMAN: Now I will call Mr. Goppold.

MR. GOPPOLD: Mr. President, Ladies and Gentlemen. If we deal with mechanisation in our enterprises we also have to deal with the repercussions of rationalisation measures in the insurance enterprises on employees. My colleague, Mr. Rittner, has submitted a Paper on this subject and I would like to highlight the most relevant aspects of this said Paper.

Nowadays, when we speak of rationalisation measures in insurance enterprises we think first and foremost of changes in the administration procedure which are being brought about by the introduction of computers. In point of fact, the effects brought about as a result of the automation of intellectual processes with the aid of computers, are more far-reaching than any measures undertaken in the past to improve working procedure. The changes made in administrative work with the aim of introducing computers lead to a basic rearrangement of administration and management. The effects are particularly great for the staff in insurance companies but also have a direct and indirect bearing on the insured.

Now if we consider the development of working methods within insurance companies over the last 50 years, we can distinguish three phases:

- (1) In the period after the first world war, technical and organisational changes were gradually introduced by experts in the various sectors and very often this happened without any co-ordination with the staff dealing with the same process before and afterwards. The repercussions for employees were relatively harmless. It was a question of getting used to new formulæ or handling a new calculating machine and in most cases there were a greater number of processes; the environment and habits were more or less the same, or they changed very little.

- (2) For a long time, a thorough examination of working procedures by organisation specialists was regarded as interference with departmental sovereignty. However, such action had to be taken when a higher degree of rationalisation was reached. The mechanisation of certain areas of office work with the help of conventional punch-card systems forced people to change habits, tradition, what have you, and to some extent also jobs became superfluous and people had to do different work. On the other hand, the huge punch-card equipment required extra staff to handle it, and, moreover, new jobs were created for specialists in connection with the punch-card system and people handling it.
- (3) The third stage of development started with the introduction of electronic data processing as a means of automating administration. Modern computers can only operate economically if all administrative processes are analysed systematically and are as far as possible, part and parcel of an overall system. The very high costs which arise in connection with operating a computer and also the high performance of these systems lead to the optimum use of such computers.

In the long term, conditions and requirements for insurance staff will change. In the future, new technical knowledge will be required. It is not only that new staff members who join an insurance company have to be trained specially; the training on the job of all staff members during their entire career will also become necessary. Each employee will have to train for a much longer period. In other words, training will become part of his performance because operations can only be conducted if the corresponding people are familiar with the use of computers and know how to obtain the necessary information about policies; correspondence; tariffs, legal rules; etc., which are being handled by the electronic storage system. He must always know what information is available. Finally, he also has to know about feeding or input in order to be able to handle the various programmes.

Another change as regards requirements is due to the performance of the staff on the computer and the peripheral equipment. Access to the electronically-fed data is becoming more and more commonplace to avoid reference to files, etc. If files are being studied when dealing with a matter, then this provides the possibility of a certain diversion. Looking through files and papers which have no direct bearing on the matter in hand may involve a loss of time but it also provides a certain balance if the work is concentrated. The data to be transferred to the screen contains only the necessary information in the briefest form. In the course of the last decade, the increased performance achieved with the help of computers was not sufficient to cope with the growing turnover in the insurance industry without recruiting additional staff. Although we must continue to expect increases in the volume of work, we can assume that the number of employees working in the administrative section of insurance companies will remain more constant in the forthcoming years. Some even believe that, if no special guiding measures are introduced, changes in administration will have been carried out so successfully by the end of this decade, that in spite of further increases in turnover there will be a decrease in the

number of jobs. At any rate, nobody should have any illusions about this very serious problem ahead of us.

Also the Insured will be affected if rationalisation measures are carried out by introducing modern computers in the various insurance companies. The processing of data by computers calls for the restriction of individual possibilities or performances. Since the programmes have to be kept within tolerable proportions everything must be geared to routine cases—the more exceptions you allow for, the greater will be the number of questions and the volume of sub-routines. Operations through the computers make it necessary to strive for standardisation of processes.

The Insured will have to face the fact that he will have to become accustomed to dealing with abstract terms and numbers, and use these in correspondence or discussions. When dealing with a client's problems with the aid of a computer a certain degree of standardisation cannot be avoided.

It will, of course, be a pre-requisite that the insurance company will do everything in its power to familiarise and help the customer along these lines, and will make it clear to him why a further schematisation of certain processes is necessary also in his own interest. Rationalisation also offers certain advantages for the Insured. There will be a saving of administrative costs which will result in "catching" rising costs and which, in the light of general competition, must have a favourable effect on premiums. It is also a question of speedier administration with less staff. Last but not least, we can also improve the customer advisory service thanks to the introduction of the computers.

Summarising, one could say that automation of administrative work provides more advantages for the insured, whilst for the individual employee within the company the disadvantages seem to prevail. Now this trend can be approved, it can be deplored or it can be rejected; but no one is in a position to stop it altogether and it would be pointless to object as people tried to do in the last century against the introduction of modern machines.

No one would probably like to do without the advantages of a higher standard of living which has resulted from extraordinary increases in productivity in spite of the growing population.

Without technical progress there is no social nor economic progress. But technical progress does not necessarily entail social progress. With increased automation, social conditions must also be changed, corrected, reformed and improved. It is the joint task of our present-day Society, of the legislator, the Government, the employer and trade unions to reduce and limit the risks arising for the working population as a result of the introduction of computers, and to compensate for these. There are many possibilities for this. The employees in insurance companies and the insured will derive advantages from future developments if, with ever-increasing and more effective rationalisation in the future further positive changes are achieved in the following fields:

- legislative and administrative measures with the aim of protecting against anti-social effects of rationalisation;
- policies regarding the employment market and professions in national and other areas, including solving the problems of transfers, advice on careers, training, retraining and education;

a step-by-step adjustment of working time to the position of productivity reached through automation.

In the various fields of our social life manifold measures have to be taken in the future if further technical changes are to benefit humanity. Only those people who support the development of social conditions can also support, with a clear conscience, the rationalisation of administrative work.

CHAIRMAN: Thank you, Mr. Goppold.

12. Mathematical Models and Forecasting: Coping with Uncertainty in Financial Planning

CHAIRMAN: Now, as I said before, we come to the following item: "Mathematical models and forecasting" by Mr. Hogan.

MR. HOGAN: If you will bear with me I am going to attempt to use a projection device. It will cause some difficulty because my paper is the usual square information and the projection device is round; it assumes round sheets of paper and they were not to be had quite so soon as I needed them! I feel also I should apologise right away that my Paper is as long as it is. It will in any case relieve your mind that I do not intend to read it, though I will discuss some parts of it.

If the unseemly length of the Paper is a fact, recall that it is a national characteristic in the United States to think that bigger things are better, *per se*. I am reminded of a story, if there is time for an anecdote, that when three university students, one from West Germany, one from France and one from the United States, were shown a documentary film on the elephant in the African wilds and thereafter were asked to prepare a Paper on the subject of elephants, the American Paper was, of course, entitled "Bigger and Better Elephants"; the German Paper was entitled "Realpolitik Elefant und Weltenschauung" and the French Paper was, naturally, called "La vie d'amour d'éléphant".

Let me right away say that it is not my intention to instruct anyone on how we use electronic models or computer models in the United States. All of us, in every country, have a great deal to learn about the use of computers for Management. It is an altogether different matter, I believe, from the kind of problems to which Mr. Kularajah referred. He is concerned with efficiency and with high quality of product and service to his insurance clients. Most of what I will say is concerned with the Management. Mr. Kularajah directs the sort of things he does to clerical and other employees—they have very few defences! Management, on the other hand, is not so easily moved to accept new ways of making business decisions. Managers can protect their positions better than clerical workers can! Therefore, I believe the problem is much more, and I hope I have shown this in my Paper, a matter of human relations than it is mathematical technique. I have never known, I would say I have known very few instances, where Management use of the computer has failed because of technical inadequacy; but I know a great number of instances where the

failure has been traced to human relations' clumsiness; this inability to handle the human relations aspect of the introduction of a new concept or a new way of Management.

I am principally concerned with planning. And within my own Company I tend to think of this problem as having a planning environment that involves attitudes of regulations. It involves competition; it certainly involves economic and social trends; and it involves the company's mythology. The company's mythology is not right or wrong, it is simply believed; and my Company, as yours, thinks certain things about itself that are of necessity taken into consideration in planning.

The most important idea, and there is probably not more than one or two ideas in this Paper, is that planning is an effort to determine the effect of today's actions on company objectives one year hence, or five years hence. Planning, in other words, is a pleasant activity. An Actuary would say that planning estimates the futurity of present policies.

Now this leads us right away into a consideration of computer applications in terms of what we might think of as housekeeping applications, very important applications that we have done for many years. We bore policy-holders; we make out the pay-roll; we make out accounting reports. One of our serious problems is that the kinds of information that we provide for accounting purposes and to regulatory agencies are not particularly well-designed to serve the Management of the company. I will say that again. The kinds of information that companies are required to provide to regulatory agencies, that kind of information is very different from the kind of information required actually to manage the company; for its objectives.

Let me identify something called "opportunity applications", which fortunately now we are able to enter upon with a great deal more confidence; in part because we know more about this area now; and in part because computer manufacturers have made our computing machines so rapid and computer storage, data storage, so inexpensive that we can carry out our housekeeping operations with very little of the computer's total power. Let me illustrate. In my Company, with two 370 model 155 computers, and some other computers besides, I have seldom used the computer's cold storage, its internal mechanism, to a greater efficiency than 35-40%. My problem is, as yours, one of input devices and output devices. We say these days, in describing this problem, that we are "I.O. bound", that is, "input-output bound." Now these opportunity applications to which I refer are: management information; simulation or possible strategy; and management training. These are, to one degree or another, largely new areas to most of us.

Let me talk for a moment about the Management information. It is everywhere, in all countries, and in all industries, the most difficult of computer applications. This is so, principally, because we are not always certain about our objectives and most managers do not know what kind of information they want. This is to say that Management is a very complex activity that involves degrees of intuition as well as some science. Whenever researchers have attempted to discover from a Chief Executive, a General Manager, what kind of information he needs to make decisions, he usually says one of two things. He says: "I am the generalist in the Company. I see the Company in an unsegmented view. Therefore, I must have *all* the

information.” And one sees large cartloads of information going in and out of the General Manager’s office and we know, at least, that he is *trying* to see all the information. The other thing he is apt to say, when you ask: “What information do you need?”—is to recall some particular information that he required two weeks ago and he was humiliated because it could not be conjured up; and he *never* wants that to happen again. Unfortunately, the information that he sought may be something that he requires once every decade, every 10 years. So, what to do? I would not make this same mistake again, but once upon a time, faced with this kind of serious difficulty, I took my systems analysts apart and instructed them that we would give to the Chief Executive, the General Manager, the kind of information he *would* want if he were a *rational* man. Unfortunately, someone carried to the Chief Executive information about what I was doing and he indicated to me that the Board of Directors had selected *him* to run the company, not the systems group. I now understand this very well. I learn slowly, but I learn well.

I believe that we are led to a conclusion; that it is necessary to have some systematic statement of the inter-action among all principal activities within the insurance company, and we must have this set down in a formal way. In other words, we must set down the best understanding we have, of how the insurance company operates, in the form of a model. Now everything we do as Managers involves a model, not a formal model perhaps, but it involves a model. The advantage of getting the model stated in mathematical terms is in part that the assumptions underlying our understanding of the company operation will all of a sudden become clear; and sometimes these assumptions are also ridiculous.

The process of forming the model I will try to illustrate with this slide. There is first of all our “real world” or “operating system”. It is very complex and we cannot put it on the computer. Therefore, we must have a simplification or abstraction to put on the computer, so we designate a “model world”, an abstraction or simplification of our very complex “real world”. We begin in the “real world”. We study the operating system’s characteristics. We then represent in a diagram, usually a flow chart—and there are some of these in my Paper—as best we can the principal activities going on in the “real world”. We must then take this simplification and state it in mathematical equation form. Here we are back to the “real world”, to find the information that will permit us to develop our equation. We come then into the “model world” again. Or we manipulate the equations, we solve them for common values. We then make a change in one of the values in the system and determine what the predicted value will be. We must then test the model in the “real world” to determine whether the results are realistic and if the process has been effectively and rationally understood. If the test is inadequate, if it shows the model to be fussy or inaccurate, then we are back to the beginning again. And we go through all the steps repeatedly.

Now some of the building blocks of the model are very simple, and here is an illustration of the estimation of premium, total premium income, beginning with a certain number of agents. We start with a number of agents which are equal to the agents from a previous period plus our recruits minus the agents cancelled. From our records we get the new business

written by taking the number of agents times their average productivity. If it is possible to put the agents into different groups, with different levels of productivity, so much the better. The number of policies would be equal to the new writings plus the policies in force. The premium income will be the number of policies times the average premium. The premium income minus claims minus expenses including reserves equal net gain.

Of course the model can become very complex as we begin taking into consideration all the small streams of financial flow within an organisation. Principally however, we are interested in total income, which is the income from reserves and the income from surplus, which added together give us total investment income, and the premium income which is the sum of the premium income from the insurance in force plus the new premium; and the premium income plus investment income gives us our total. This is very simple. The total income minus total expenditure will give us contribution to assets in any given year; minus reserve liabilities equals a surplus; and the change in surplus, our net gain. I will not attempt to show you the somewhat complex system of financial flows with actual data from *Nationwide* companies for a few years ago but you can look at that within my Paper and understand what I am doing.

I want to come back to this matter of information, because it highlights once again the information that it is possible for us to capture and process; in comparison with the very small amount of information that is required for decisions. Note the data available in the chart; a very large amount, everything that we can capture; the data that is collectable constitute a small fraction; a still smaller part of the data is processable; and finally the information required is a very small part of the total. The problem is that, as small as that required information is, we may nonetheless fail to have it available to Management.

Now I want to move into the simulation area and illustrate for you a use of a computer model at the *Nationwide* companies over the last couple of years. Note that there is a data collection system necessary for any simulation effort and it will consist of base data that will almost always be available plus certain additional data that have to be obtained specially. This special data is most often cost data. I have been trying, with great diligence, to improve the cost data within my Company so that it better serves Management purposes, but I know that I still have some data that could have been produced by Hans Christian Anderson.

In terms of assumptions about the future, the future will arrive whether we are prepared for it or not. We are forced, therefore, to make certain assumptions about what the future will be like. There are controllable elements in the future and uncontrollable elements. I am drawing the distinction here between controllable elements as something within the control of the company itself; rate of growth for example; levels of expense and so on. The uncontrollable elements can be automobile density and population; social attitudes, changes in character values; things of that sort.

The corporate model receives both of these kinds of data and then produces kinds of output that Management wishes to have. The model I will describe principally has as its input: rates for policies; levels of production; losses in terms of both frequency and severity; recruiting; persistency; and expenses, principally for new writings and renewal writing.

The output for each term of the policies will show: the size of the agency force; the policies in force; the loss ratio; expense ratio; gain ratio; and costs. In brief, the gross model that I am describing reads, as input into the computer: the agent force identified by age, length of service and previous production.

For the auto business, new auto business is then written. The auto portfolio is persisted according to given assumptions, the auto premium is collected, the claims are incurred by coverage and by term and the model goes on to home-owners insurance. This model principally deals with automobile and home-owners insurance. And the same functions of writing business; persisting the in force; collecting the premium; incurring the claims; is undertaken. This will proceed for as many years into the future as we wish to go. At that point the auto expenses determine, home-owners expenses determine, and the operating results are then printed out in the form in which you have this within my Paper. I want to point out that the insurance company, with particularly the casualty insurance company, which, over relatively long periods of time, has tended to a claims loss ratio of about 60% and for companies that use agents as the means of distribution, general and administrative expenses of about 36%, gain of about 4%. But for such a company a small change, a 10% reduction in expense, will give a 90% improvement in the gain ratio. A 10% reduction in expense, from 36% to 32.4%, with loss ratio remaining the same, increases the gain ratio from 4% to 7.6% which is a 90% increase. This is to say that small changes in expense and losses have very large effects, have very large leverage, on total gain. I am not going to show a couple of slides that I had here to illustrate the operation of the model, they are in the Paper and I think you can make reference to them there.

But I want to describe to you a very important use of this model that we made in the Spring and Summer of 1970. In that year, with most American insurance companies, we found ourselves with deteriorating financial ratio. We feel, for no very good reason, that we ought to have half as much in surplus funds as we have in premium. And in the *Nationwide* companies we were moving on a path that was carrying us to a third and a fourth and possibly to even smaller ratios of surplus to our premium. We did immediately the sort of things that most insurance companies would do: we began to raise underwriting standards; we began to identify agents whose loss ratios were not very good; and we began to reduce expenses within the Home Office. Unfortunately, all of these actions take an extended period to produce their effects. So through the growth model we began running simulation experiments to determine the best strategy to improve the Company's financial result. The goal was to move from a 2½% operating loss to at least a 4½% operating gain within 18 months. To aid this process we made about 100 simulation studies, reviewed them with senior Management and used as our summary of our approach, this slide. The possible strategies were: growth without any limit; controlled growth limited perhaps to 5% or 6%; selective growth which is a low rate of growth but in only those markets that are highly advantageous; we could re-trench, meaning we could weed out policyholders within the limitation of our renewal guarantee to them at *Nationwide*; we could divest ourselves of assets and reinvest the proceeds for internal improvement; we could reduce

the field force, as indeed some American companies did—a notable example was the *Liberty Mutual* which reduced its field force by 25% according to seniority; and the *Liberty Mutual* is not making net gains yet; we could have a rate increase.

Now on the slide I have shown across the top all of the areas of the company operation that these strategies impact upon: loss ratio; expense ratio; the investment in the field force; the length of the pay-back period; how long it takes to secure the result desired; and the surplus. For example, a rate increase has a favourable effect on expense ratio; favourable effect on the loss ratio; favourable effect on the field force because it increases their commission; it has a very favourable effect on the length of pay-back because almost immediately there is an advantage—financial advantage; and a favourable effect on the surplus. Growth—uncontrolled growth—has an unfavourable effect on the loss ratio; unfavourable effect on the expense ratio; very favourable effect on the investment in the field force because it increases commission; an unfavourable pay-back period—about three years in *Nationwide*; and an unfavourable effect on surplus. Where all the unsatisfactory and satisfactory cells are within this chart I instructed my research staff to provide numbers for each of the 'U's' and the 'F's' in the chart. I instructed the research staff, in about May of 1970, to produce numbers for all of those categories by the middle of July; and by and large they did so. We ran about 100 simulation experiments to determine it.

Now, the strategy that resulted in 1970 essentially was this. There were pricing-in product changes. We came upon an activity known as managed growth. We used very high field activity in selection of risks. We had a complete moratorium on green auto business and a moratorium on agent recruitment. In the claims area we had increased supervision and inspection settling points. We tried to eliminate unnecessary work and increase productivity. In the investment area we moved into securities of greater risks and higher return.

I want to illustrate the effect of different levels of cut-back in green business as the growth model showed them. The first here shows a 25% reduction in production per agent. Agents who were selling 100 policies a year, new policies, would be required to sell only 75, for example. The effect of that on the loss ratio is traced out by this top line. Within 18 months there is a change in the loss ratio, a reduction in the loss ratio of about 4 points. The next line shows a 50% reduction in new business entering the company; agents who were selling 100 policies would be limited to 50 and note that the advantage is more than 5%—five points within 18 months. A 75% reduction would show over 18 months about a seven points reduction just because of that fact alone.

I have much the same kinds of illustration for expense ratio and so on but the strategy developed produced a gain change. We chose the 50% reduction and it produced a gain change by itself, over 24 months, of about 9%. The 9% change there in the loss ratio plus more modest changes in expense ratio plus some improvement in persistency, enabled us within 18 months to move to a 6½% gain as against a goal of about 4½%. And along the way we got our Actuaries to hide some money in reserves and strengthen them so that the overall advantage and gain was very substantial indeed. This enabled us in 1971 to still maintain the high field activity; managed

growth and expense control; all with an endeavour to have a flexible response.

To bring my remarks to a close let me summarise to some degree what it is that I am telling you. I think it would not be possible to devise a strategy that would, with as large a degree of certainty, turn a big company like *Nationwide Insurance* around from loss or gain within 18 months without using a model of this type. I should have to tell you, in all honesty, that there was some doubt in the minds of Management that the simulations were correct. They seemed to be optimistic. Few people, at the time that the Management decision was made, felt deeply in their bones that within two years a larger than 6% net gain would be realised. I have little doubt, at this time, that if we came into the same kind of operating problem again that the Management would straight away utilise this kind of Management technique.

It is, of course, our expectation that by continuous use of the model for forecasting and simulation that we would be able to avoid the kinds of circumstances that produced the loss in the first place. The group that uses this model, in the *Nationwide Companies*, is a carefully selected group. They are technically competent but I am much more interested in their human relations skill. It is their role, within the companies, to try to help the departments and offices obtain what they want, rather than to change what the departments or offices want. If they are to try to influence the departments or offices, then they are instructed to do this in a very subtle way. With that let me conclude that I appreciate very much your attention. I will be most pleased to answer questions as you have an opportunity to talk with me in the hall, or to send you things from *Nationwide* further to explain the use of the model. I will come anywhere to explain the model, provided there is good skiing, or something; and I very much appreciate your attention and thank you very much.

CHAIRMAN: Thank you Mr. Hogan. As I have explained, we shall not discuss your Paper today.

13. Polish Insurance Market

CHAIRMAN: And now I invite Mr. Weichert to come and speak about the Polish Insurance Market.

MR. WEICHERT: Mr. Chairman, Ladies and Gentlemen. Since the 16th I.C.A. Insurance Committee Conference takes place in Poland it was thought that it would be a good idea to inform shortly the delegates to this Conference about the Polish Insurance Market and the two Polish insurance organisations in existence and it is my privilege and great honour to speak now to you on this subject.

The insurance activity in an organised form has existed in Poland for 168 years now. The two insurance organisations presently active in insurance in our country, that is the *Polish National Insurance Company*, known in short as P.N.I. and the *WARTA Insurance and Reinsurance Company Ltd.*,

are the heirs of the public insurance companies which were founded as early as 1803 and 1804.

Being an Executive of the *Warta Insurance and Reinsurance Company*, I think that I should now first start with giving you some information about the activities of the *Polish National Insurance Company*. This Company is mainly concerned with the insurance of home business. Their Head Office is in Warsaw, the Company is managed by a Management led by the General Manager. There is the Insurance Council—composed of delegates of national councils of provinces, delegates of some Ministries and of science. The Head Office is composed of various technical bureaux. There are 19 branch offices in capitals of provinces, 329 district and municipal offices in district towns and 22 offices only for insurances of the socialised economy.

The P.N.I. accepts insurances which are limited to the territory of the Polish Peoples Republic. The insureds are Polish citizens and Polish firms and institutions. The insurances are concluded only in Polish currency. The *P.N.I. Company* operates all kinds of damage insurances and insurances of persons, which are necessary for the population and for the socialised economy. The insurances concluded with the P.N.I. are either obligatory or voluntary.

The obligatory insurances pertain, as far as the agricultural risks are concerned, to State, co-operative and individual farms. The number of the latter is three million. The insurance of farms covers the whole estate—practically against all risks. It means buildings and movables against fire and other risks; crops against hail and flood; horses and cattle against death. To the obligatory insurances belong also the insurances of legal liability and the insurances against accidents resulting from the traffic of motor vehicles—the death and the invalidity of drivers, passengers and pedestrians.

The other kinds of insurances underwritten by the *P.N.I. Company* are voluntary. According to the recommendations of the State and economic authorities, the movable property and the means of production of the State and co-operative, industrial and commercial enterprises are insured in a voluntary form against fire and other risks. This insurance is handled on simplified principles.

The goods and raw materials in domestic transport are insured against transport risks on the strength of open-cover policies. The insurance of the private property of the population—such as domestic movables against fire, theft, water pipe damage and so on—is very developed. Very popular and well-developed in our country are also the motor car insurances. The personal insurances, such as Life and accident insurances, develop very quickly and show the largest premium income.

The *P.N.I. Company* underwrites three groups of Life insurance. The first group is individual Life insurance, comprising three kinds. First—insurance in case of death; second—mixed insurance in case of death and life, which are managed according to the traditional forms and are accepted after a medical examination; and third—endowment insurance for children.

The second group of Life insurances is family Group Life insurances. They are the basic form of Life insurances and the most general. The premium is the same for all workers and employees without regard to the

age, health and number of family members. These insurances comprise now about 9·7 million of workers, employees and pensioners. If we take into consideration also the members of their families, we arrive at the figure of about 27 million people, that is about 80% of the population of Poland. These insurances are concluded by the enterprises—factories and companies—and the insureds are the workers and employees who have signed a special declaration and pay the premiums.

The pre-requisite condition of the conclusion of the insurance contract with a given enterprise or factory or company is that at least 75% of the employed personnel are insured; and in small workshops employing less than 50 persons, 80% of their employees. The premiums are deducted from the payroll and are transferred every month to the district office of the *P.N.I. Company*. The enterprise appoints an employee for the handling of all questions in connection with this insurance.

The Group insurance gives the right to continue the insurance individually on the same conditions. The following persons have this privilege: first—the insured who has ceased to do work and has a right to a pension or to disability payment or are in age, a man over age 65 and, if it is a woman, over 60; second—the insured who has ceased to work for any reasons whatsoever; and third—the widow or the widower, when the insured is dead, on condition that the widow is older than 50 years and the widower is more than 60 years old; and that they have not a known Group or individually continued insurance. The right to continue the insurance is granted if the premiums for the Group insurance were paid at least during the last 12 months before the dismissal. The payment of benefits in the Group insurance is made within two days after the presentation of the claim.

The third group of Life insurances handled by the *Polish National Insurance Company* is to the so-called, pensions insurances. They have as purpose the insurance of resources for old age. We have two kinds of pension insurances, namely deferred pensions and pensions payable immediately. These insurances may be either on one life, which means that the annuity is paid to the insured only, or on two lives, in which case the widow receives—after the death of the insured—60% of his annuity. In these insurances, life in the Life insurances, the annuity increases by 1·2% in the deferred pensions insurance, and by 2% in the pensions payable immediately.

And now a few remarks about Accident insurances. These comprise the following categories of persons: schoolchildren, farmers, workers and employees, firemen and private persons. The most popular is the accident insurance of schoolchildren which comprises about six million of schoolgirls and boys and students. The premium for this insurance is very low.

The voluntary insurances are concluded by the insurance agents. The total of professional agents is now about 1,500 persons and they conclude all kinds of insurance. The network of agents who are not professional and consider their insurance job as a supplementary one is very wide indeed. For instance, about 40,000 deal with the accident insurance for schoolchildren and 30,000 work in the enterprises and deal with insurance of persons, domestic movables, etc.

The insurance agents receive a commission which varies from 6% to 20% of the premium, depending on the type of insurance, with the

exception of the individual Life insurance in which the commission for the conclusion of the insurance amounts to 15 per mille of the sum insured and there is also a premium collecting commission up to 10% of the premium.

And now I would like to give you some information about the other Polish insurance organisation, the *WARTA Insurance and Reinsurance Company Ltd.*, and I have the honour to be the Executive of the *WARTA Company*. *WARTA* was founded in 1920 as a professional, specialised reinsurance company, hence its name was then *WARTA Reinsurance Company Ltd.* The Company was developing and growing in the years between the two world wars and firmly established itself in the international reinsurance market. The Warsaw uprising in the year 1944 stopped the activities of the Company but in 1946 *WARTA* restarted its business activities. After the war only two insurance organisations restarted in Poland, namely the *P.N.I. Company* and the *WARTA Company*.

During the first post-war period the *P.N.I. Company* were doing the insurance business and *WARTA* was doing the reinsurance, and reinsurance only. Thus, at this time, from 1946 to 1959, *WARTA* continued its role of a specialised professional reinsurance company. Its job was to re-insure abroad the insurance business of the *P.N.I.* which needed foreign reinsurance guarantees. At the same time *WARTA* was also accepting reinsurance business from abroad, thus practising also the so-called active inward reinsurance.

The years 1946-1959 were characterised by constant growth of *WARTA'S* reinsurance business both outward and inward. The 1st January, 1960 marked a new period in *WARTA'S* history: *WARTA* took over from the *P.N.I. Company* the Marine, Hull and Cargo business, the Aviation business, some of their Fire business and also the insurances of motor cars in international traffic. Generally speaking *WARTA* took over any reinsurance business where there were or might be some foreign exchange interests or there might arise liabilities or sums due in foreign currency. The *WARTA* thus became, from 1st January, 1960, a direct/indirect writing company.

Following this important change in the scope of its activities *WARTA* changed its name to *WARTA Insurance and Reinsurance Company Ltd.* As from 1960 the Company:

- (1) writes insurance business in the branches mentioned above, issuing its own policies;
- (2) reinsures part of its own business abroad; and
- (3) transacts also inward active reinsurance.

The taking over of the activities in the field of direct underwriting has, of course, contributed to the growth of the Company, of its premium income, of its standing and importance.

Let me give you just a few figures. In 1971 *WARTA* insured 282 ships of the Polish Merchant Marine and 148 ships of the so-called Deep-Sea Fishing Fleet. The joint tonnage of these ships insured by us amounted in 1971 to 1,740,000 gross registered tons. Let me put on record here that it is foreseen that this tonnage shall reach in the year 1975 that is, at the end of our present five-year plan, the figure of about three million gross registered tons.

It is worth mentioning here that *WARTA* is the sole insurer of its clients, that is, *WARTA* grants its insurance or guarantees for 100% of the insured amounts. The ships belonging to the various Polish shipowners are quite new—they have an average age of eight years and so it is quite a new fleet. Very many of our ships were built by the Polish shipyards.

Every insurer must, of course, give proper attention to loss prevention. *WARTA* pays special attention to matters connected with preventing losses and minimising them. This action is financed from *WARTA'S* own pocket and from its own funds. The following are some of our activities in this field: First, in co-operation with various other bodies *WARTA* has recently undertaken a special action to discover the causes of various damages to ships' machinery and to eliminate possibly these causes. This group effort, so necessary in any serious loss prevention action, is starting to bear fruit. Further, *WARTA* buys, often for foreign currencies, equipment, for example, radar for certain ships; further, *WARTA* gives money prizes to masters who have sailed, in a given year, their ship without any damages; *WARTA* also supplements with new modern equipment the outfit of marine schools training ships' officers and crews, etc. Our insureds co-operate with us in the field of loss prevention. Very effective, and really wholehearted, is the co-operation of the shipowners, our insured. They have special Prevention Committees which study the causes of damage to ships and they initiate measures for the elimination of such causes. The Sea Chambers also co-operate with *WARTA* very actively. The Ministry of Shipping organises once a year a special Anti-average Conference which brings their important contribution towards preventing damage to ships and minimising such damages.

One of the activities of *WARTA* is to give to insurers from other countries Average agents' services. Our experts survey claims and issue the necessary documents; and they also settle claims on behalf of foreign insurers.

I would now like to tell you, in a few words only, about our general organisation. The Head Office of the Company is here, in Warsaw. We have four branch offices: in Warsaw, Gdynia, Stettin and Lodz. *WARTA* is a joint stock company and has the following authorities: the General Meeting of Shareholders; the Board of Directors; the Auditing Commission; and the Management, with a General Manager at its head.

WARTA is a member of several international organisations of insurers, namely the *International Union of Marine Insurance* of Zurich; the *International Union of Aviation Insurers* of London; the *International Credit Insurance Association* of Zurich; the *Council of Bureaux of International Motor Insurers* of London, that is, the so-called "Green Card System" Organisation.

The Company has the so-called "foreign exchange autonomy" and can give its Banks, at any time, orders to effect immediate money transfers—without the necessity of obtaining a prior permission of any foreign exchange control authority.

It is time now for me to say a few words about the reinsurance activities of *WARTA*. As I told you before, in addition to the insurance underwriting, *WARTA* effects also reinsurance transactions. *WARTA'S* passive, that is, outward reinsurance, consists of reinsuring abroad part of

the business which the Company accepts in insurance. The main business that is reinsured abroad is the Marine business, Hull and Cargo. *WARTA* reinsures also its Aviation and Motor business and, further, its Export Credit risks and Contractors' and Erection All Risks when Polish contractors build or erect factories and such like abroad.

The gross premium income under 100% of our outward reinsurance contracts, in various branches, is estimated for the year 1972 at about U.S. \$12 million. I give you this estimate in U.S. \$ currency because *WARTA* accounts its outward reinsurance business and settles the premiums in the U.S. dollars. *WARTA* has presently over 300 reinsurers in about 50 different countries in Europe and the other Continents.

As I already said, *WARTA* transacts also inward active reinsurance, accepting shares in foreign insurance business. By transacting active reinsurance *WARTA* seeks to obtain a better equilibrium for its business portfolio and endeavours to reduce the cost of Polish reinsurance by profits emanating from active reinsurance contracts. Therefore, as a rule, *WARTA* co-operates with its business partners on the principle of exchange of business. It is *WARTA'S* intention and its business policy to give profits to the reinsurers participating in its reinsurance contracts. Since *WARTA* reinsures its own insurance business, and is in the branches transacted by *WARTA* the sole insurer, *WARTA* is in the position to have profitable insurance business and such reinsurance contracts which will give profits to the reinsurers. These aims are achieved by *WARTA* rating the risks properly, agreeing in the proper way the insurance terms and conditions, liquidating in the right way the claims, and developing great activity in the field of loss prevention and so on. Thus obtaining profits for *WARTA*—as insurer and reinsurer—and giving profits to the reinsurers, is the motto for *WARTA'S* business activities.

Now I would like to say a few words about how we prepare specialists in Poland so that we have experts properly trained for this difficult work of insurance and reinsurance. Namely, within the scope of international scientific and technical co-operation, both the *P.N.I. Company* and the *WARTA Company*:

- (1) participate in and are co-organisers of yearly conferences of insurance organisations of the socialist countries; these conferences take place alternatively in the capitals of these countries and have for purpose an exchange of experiences and discussions on the problems of organisation and management;
- (2) we co-operate to a large extent with the Polish section of A.I.D.A., that is, the *International Association of Insurance Law* and with the *International Association of Actuaries*. The Polish section of the A.I.D.A. is very active and the co-operation between them and the two Polish insurance organisations in the field of insurance law is specially fruitful.

Mention should also be made of the fact that the two Polish insurance organisations were the initiators and co-organisers of scientific studies in the field of insurance science in the Polish High Schools, namely, the *High School of Economics* at Poznan, where there is a Chair of Insurance with full specialisation; the *High School of Engineering* at Kielce-Radom, two towns situated nearby, where students have the possibility to specialise fully

in insurance and prevention; and the *University of Warsaw*, which offers the possibility to specialise in insurance law.

This ends my information about the *P.N.I. Company* and about the *WARTA Company* but I would like to remind my distinguished audience of the invitation of the *P.N.I.* and *WARTA* extended to you to attend their Cocktail Party which will be given by us today at the Europejski Hotel between 6 and 8 p.m. I would like to add for your information that the General Managers of these Companies, namely Mr. Domagawa from the *P.N.I. Company* and Mr. Wyznikiewicz from the *WARTA Company* will be there to welcome you. We believe that this meeting will enable us, the Polish insurers, to thus have the possibility to get acquainted with you, to meet socially together, and to talk about subjects of mutual interest, be it insurance or other subjects. Also I would like to add that there will be more representatives of our two Companies there and they will be only too happy to answer any questions you ask them.

Mr. Chairman, Ladies and Gentlemen, I thank you very much for your attention.

CHAIRMAN: Thank you very much Mr. Weichert, for your very interesting presentation. I am sure everyone appreciates all the information you have given to us and we thank you in advance for the Cocktail Party to which you have so kindly invited us tonight. Now Gentlemen, we will adjourn until tomorrow morning.

(The meeting was adjourned at 17.30 hours)

SESSION OF 8th OCTOBER, 1972

The second session of the Conference opened in the Rudniew Hall, Palace of Culture and Science, at 09.00 hours.

Mr. R. Lemaire in the Chair.

14. Discussion of the Paper "Mathematical models and forecasting: coping with uncertainty in financial planning"

CHAIRMAN: Now we start this morning with a discussion of Mr. Hogan's Paper and the first speaker I call is Mr. Rijkers of *La P.S.*, Belgium.

MR. RIJKERS: Mr. Chairman, Dear Colleagues. On reading for the first time Mr. Hogan's Paper an insurer may react in three very different ways, corresponding in fact to three sides of his own personality. As a technician he will admire the ingenuity of the solutions proposed to diagnose and to manage an insurance business. As a manager he may wonder whether the

introduction of computers is really responsible for such an increase in the complexity of an insurance manager's task, which consists essentially in making decisions in order to ensure the future of his enterprise. As a simple human being he will probably feel dizzy, for the normal prolonging of the methods elaborated by Mr. Hogan is simply a cybernetical management.

I shall leave aside the philosophical considerations one could express about the world of tomorrow and about the question: "Will the computer help mankind or will mankind become a slave to the computer?" However, one may admit that such problems, although they are not explicitly approached by Mr. Hogan, are always in the background of his Paper. It is the same for the social and human problems. Without giving them long developments Mr. Hogan did not neglect them altogether, and we may praise him for having thus evaded the dryness of a strictly technical report.

But as a matter of fact, however, the main part of his study is nevertheless technical. Little wonder, considering the topic: scientific management founded on mathematical models manipulated by computers. Of course, afraid of the apparent complexity of the methods suggested, we may be sceptical and we might object that insurance companies have been operated for a long time before mathematical models and computers were introduced and that in that time people had also to make decisions and to manage their business.

This, indeed, is true as far as computers are concerned. But it is also true that, according to information received at the C.A.P.A. colloquium held in Paris in December, 1970, that of the top 25 Life insurance companies existing in the U.S.A. 50 years ago, by 1970 10 had disappeared, the 12th one had regressed to the 87th, and the 17th one to the 48th position. The reason given for the downfall: lack of management. We may thus wonder whether these downfalls would have occurred if the said companies had been able to resort to scientific management by use of the modern techniques proposed by Mr. Hogan, as well as by various others.

I should like to mention a more notorious and more recent case where ignorance, and maybe even contempt of elementary principles, led to disaster. I am alluding here to the recent bankruptcies in the motor insurance field. When enquiring into the causes of most of these bankruptcies, one realises that the responsible managers generally neglected commonsense and technical rules such as the following:

- (1) a company's premium income is not a consequence of a tariff, but of the way the tariff is being applied;
- (2) the balance sheet results must be settled after a precise evaluation of the technical reserves, and not prior to it;
- (3) a swift increase in the premium income resulting from a cut-rate tariff does not save the business, but on the contrary accelerates its decay; and so on.

On various occasions, when attending different professional meetings, I have had discussions with insurers who obstinately believe that their sole feeling, their sole intuition—what the French call "flair"—was, after all, the safest and the only guide in business methods. No doubt feelings or better intuition remain necessary gifts, and Mr. Hogan himself says it, but to those who stubbornly believe only in their intuition or "flair", I systematically reply that the slightest cold in the head can mean disaster

to them. The motor insurance bankruptcies seem to prove that this reply is not a mere joke.

I should like to add that the topic brought on by Mr. Hogan reminds me of two other circumstances where similar problems were discussed. The first was at the Business Games seminary organised in Columbus, Ohio, by *Nationwide*, and C.I.S. of Regina, in June/July, 1971. Those who enjoyed the privilege of attending it will recognise, for instance, in the figures given on figure 1 of Mr. Hogan's Paper, the ideal rate three between premium income and the surplus. The second one was at the International Congress of Actuaries held in Oslo in June, 1972, the Agenda of which contained the following topic: "Methods for the forecasting of an insurance company's expansion during the next ten years". Twenty-five papers were presented, practically all based on the notion of mathematical models. The Insurance Committee of I.C.A. Conference today proposes the same topic. It is a sure sign that it is important and that the managers ought to take it seriously, objectively and without any prejudice.

I now come to a few special remarks about the technical side of the Paper. First, the selection of parameters and relations. The Paper draws our attention to the importance of such a selection. Without questioning the very notion of mathematical models as a scientific way of management, I also think it is obvious that the selection of the elements is essential. In different places in the Paper, however, for instance in figure 1 illustrating the general idea of management, as well as in the description of the "corporate insurance model" (figures 5 and 6) which Mr. Hogan recommended as being of greatest interest, and finally in figure 14, relating to the control model, the main elements he makes use of belong to the book-keeping field. But in the course of my former and present experience in analysing financial statements, I realise that one has to be wary of balance sheets and profit and loss accounts. Even when comparing several successive balance sheets in order to proceed afterwards by extrapolations, one realises only dimly the reality of the present situation, and still much less its probable evolution. Of course one may dissect the balance sheets and profit and loss account items; sub-dividing into more homogenous risks; isolate by year of occurrence; sub-divide the premium income into pure premiums and loadings; and so on. But while doing so one sees that one is nearing more and more usual actuarial relations for the establishment of tariffs; the valuation of reserves; the setting of implicit or explicit safety margins; and so on.

This goes so far but one may wonder whether such relations are not, after all, the most valuable grounds for the building up of models. We may happen to find profit-showing balance sheets, even better than the preceding ones, whereas an actuarial analysis detects a situation that not only means a loss, but even a sure decay. To wonder who is right or wrong is not the real problem. The book-keeper and the Actuary did their work correctly. Only, one has to keep in mind the fact that balance sheets and actuarial analysis are documents complementing each other and equally indispensable to get a really perfect knowledge of the position, of the position of a branch, or of the enterprise. Of course balance sheets have an official character which an actuarial report does not always have, but this is simply a matter

of law or custom, absolutely independent from the scientific side of our problem today.

My second remark concerns uncertainty in forecasting. It is, indeed, as Mr. Hogan points out, one of the objectives of modern mathematical statistics to operate under the strain of uncompleted or inaccurate data.

As far as some parameters are concerned, forecasts are possible, although they must be located inside a confidence area, measurable along the mathematical statistic laws. These laws allow us, for instance, to settle the initial capitals and the safety margins necessary to the permanency of the financial balance. Other factors are not controllable, such as, for instance: sudden salary increases as a consequence of social troubles; national downfall of the value of securities following a Stock Exchange convulsion or a sudden rise in interest rates; changes in prices due to political events; and so on.

No doubt one may hypothesize, simulate situations, and ask the computer which decisions ought to be made in such and such an eventuality.

This is the whole simulation technique; but will the decision thus dictated be, practically, valuable? Supposing the decision means an 18 months stopping of any new business in motor insurance and a drastic reinforcement of the bad risks eliminating criteria, will such a decision, although theoretically excellent and certainly a courageous one, not bring on conflicts with the sales department? And what will be the consequences of such conflicts on the company's health?

Considering the uncertainty about the dimension of financial consequences of unpredictable events, my belief is that every responsible manager ought to keep his mind on the following two rules:

- (1) keep himself well informed about political, social and economic events, in order to be able to react correctly in due time;
- (2) not to hesitate, in the favourable business years, to consolidate the society's own reserves; the technical justification of which cannot be over-emphasised. Every specialist knows what the risk theory, the problem of ruin, the stability criteria and so on are teaching us in this connection.

I consider this last remark especially important to our co-operative insurance companies, or it is closely related to one of the basic principles of co-operation: the refund of profits.

On operating with computers I entirely agree with Mr. Hogan when he states, somewhat regretfully, that most of the other enterprises equipped with big electronic equipment confine these to "housekeeping applications" like preparing receipts and bordereaux, registering accounts, and so on. No doubt the priority given to those works can be more or less logically explained, for such works are, of course, important to the everyday life of the company. It is also due partly to the ability of the computer salesman in proposing attractive solutions to the problems which are, to the managers, a permanent preoccupation: such as accelerating the documents' compilation; eliminating lots of errors; reducing the administration expenses; and so on. In this connection it might be interesting to try to prove to what extent the forecasts made by computer salesman have turned into reality!

But I personally believe that the explanation may rather be found in the fact that programmes linked to actuarial and econometric models

required much more storage capacity than was available in the first computers put on the market.

If administrative tasks are important, however, they are not the only ones. This is why, considering the large increase of their storage capacity, the time has now come to extend their use to other tasks which are just as essential to the life and survival of the companies, provided the enterprises are financially able to purchase or to lease such equipment. Now, the middle-sized or smaller companies are hardly in a position to invest in expensive equipment, and are still more vulnerable to business competition than the bigger ones. As far as such companies are concerned, the simulation techniques might be more important to them than the administration problems.

The main point of the whole Paper presented by Mr. Hogan is, in my opinion, the part concerning simulation. Thus the famous question: "WHAT IF".

But what if you do not have a large capacity computer at your command? This leads me to suggest a matter for thought: to what extent and under which conditions would it be possible that, between us—the Insurance Committee Member companies—those lacking in electronic equipment might be granted the use of the big computers owned by some others, in order to proceed to simulations and better to ensure their survival? I may be wrong, but I think it is possible today from a travel agency in Brussels to operate a computer located in New York in order to check whether there is a seat available on such and such a day in the plane going from, say, Columbus to Washington. And the answer comes within a matter of seconds. Can such a performance not be reproduced in our own field?

I am going now to conclude in a few words. The remarks I made concerning some purely technical sides of the matter are of little consequence when compared to the bright conception brought forward by Mr. Hogan. The Paper he presented to the Conference enlightened us quite magisterially on the modern ways to manage a business concern. Beyond the precise description of mathematical models, Mr. Hogan proposes in fact that we apply scientific management methods, not in order to decide how to manage, but in order to decide better and thus better to manage insurance companies. His Paper is thus more than a mere study: it is, in fact, a warning. For, after all, what will become of our companies supposing Mr. Hogan is right?

CHAIRMAN: Thank you Mr. Rijkers, for your interesting comments. And I will call now Mr. Grahn from *Folksam*, Sweden.

MR. GRAHN: Mr. Chairman, Delegates. *Folkam's* non-life insurance portfolio, which is the main subject of my remarks, emphasises the family's protection. Eight hundred thousand motor vehicles, together with one million apartments, homes and week-end houses, are predominant amongst the insured objects. Those large risks which one finds within commercial property and marine insurance do not have the same proportions and relative importance with us as with our two foremost competitors.

Non-life insurance in Sweden has had bad results in recent years. The hard competition between companies has led to the premiums being set initially at an insufficiently high level to cover the increase in claims costs which, amongst other things, arises as a result of inflation. The bad results

have also been contributed to by an unexpectedly sharp increase in claim frequencies for thefts and burglaries.

We had a similar experience at the end of the 1950's and the beginning of the 1960's in automobile insurance when an unexpectedly sharp increase in claim frequencies resulted in severe depletion of capital.

The latest year's results have been adversely affected by inflation to a relatively greater degree than earlier, even though we can continue to say that the claim frequencies have contributed most to the unsatisfactory development. The reason that inflation now has a greater impact is that we have gone in more and more for insurance covers with very high limits. When one has insurance policies with very high limits one does not receive the automatic increases of premium income which come from insurance covers with lower limits set according to the value of what is insured. With the latter type of policies, the insured amounts go up in pace with the price changes in the society.

Within *Folksam* we are currently discussing measures to improve our premium calculation methods. We seek greater security in our calculations. We should make it more clear for us which time frame we shall use in the calculations for different insurance branches. We must in a better way know with which period a recently-affected calculation is concerned. This is obvious in respect to non-life insurance, but it can also apply to Life operating costs.

The great majority of our policies have one-year contract periods and the premiums can only be changed on each person's policy anniversary date. This implies that it takes up to 24 months for the Company to receive the full effect of a premium increase and the financial results will often be affected in three calendar years. At every premium calculation one should, therefore, have a time perspective of at least three years.

It is, however, not sufficient simply to improve our calculation methods in such a way without taking into consideration the continuing inflation and make it clear to us for how long a period the calculation will be valid. Those assumptions which are used in the calculations for each separate insurance branch should, furthermore, be introduced into a financial control system. Mr. Hogan is, as far as I can see, of the same opinion but treats the question from a more mathematically scientific base than I.

It is, in other words, desirable that those assumptions be used in the calculations regarding the claim payments and operating cost figures are updated in a financial control system. With the help of these assumptions in the calculation one should, for every insurance branch, be able to distribute the budgeted income in the form of allowances for the different sorts of operating costs—such as, for example: sales; claims handling; and other costs—and claims payments too, which in turn, if necessary, can be split up into different elements.

After having divided up, in the manner described, the budgeted income in each of the various insurance branches one can deal with what I shall call at this moment, and perhaps for want of a better name, a "predetermined result". How do I now want to use this "predetermined result" in *Folksam's* financial control system? We follow the result developments for every insurance branch which is of financial importance through

prognoses drawn up monthly. These prognoses include: claims payments; operating costs; and a contribution from investment income called "calculated interest". These forecasts, which always refer to 12-month operating years, should in my opinion be set against those calculated assumptions, that is, against those "predetermined results". This can be done in such a way that the income side of the prognosis, with the help of those factors or assumptions which constitute the basis for the predetermined result, is converted into contributions to the claim payments and operating costs. The prognosis' cost side is then set against the income side. Thanks to this, I tie together the continual control of profitability, which I receive in the monthly prognoses, with the assumptions I introduced in the calculations which laid the ground for the determination of the premium payments. In this way I think we should put the calculated assumptions to the test at an earlier stage than we do now.

This gives the Company's Management possibilities to undertake quickly measures such as the redistribution of available resources and/or revision of the calculations. It is undeniably necessary that one has such a system in a situation where the full effect of a premium change first comes after two years, and when the inflation in the same period changes our financial situation as insurers. I think that a continuing follow-up of this sort should also be a certain help to our staff when the assumptions for different components shall be made in the calculations.

The predetermined result introduced in a financial control system can be used additionally in our budget work. With the help of the income side of the forecast one can test the budget from a profitability point of view. We can try in this way to get an answer to the question of whether our budgeted costs lie within the limits of what was assumed in the calculation and thereby coincides with the premiums' financial strength. I think that a comparison of this type can give a company's Management cause at an early stage to reconsider the budget or appoint a project group to revise its calculations. It can obviously be a question if both proposals should be undertaken.

A financial control system of this sort demands a work investment. We have E.D.P. which, more than it is now, should be made use of for an integrated control system and financial control. I am here of the same opinion as Mr. Hogan, namely, that we still do not utilise the E.D.P. machine capacity to the extent that we should for this purpose.

Mr. Chairman, we in *Folksam* are beginning in a project group to start work with what I have described in order to improve our financial control system. We have consequently up to now not pushed deeply into the problems. I am conscious of the difficulties which arise when one carries out a system in practice, but I think Mr. Hogan's excellent Paper certainly will be of value when we shall further develop our ideas around our, so I hope, future effective control system. It is possible that in a few years we will have the opportunity to return to this subject.

CHAIRMAN: Thank you, Mr. Grahn. I think that Mr. Hogan would certainly like to add a few words to his report and comment on what has been said by the speakers.

MR. HOGAN: Mr. Chairman, Delegates. You must realise the great honour you did me in inviting me here for the first time. I have been with *Nationwide* some five years and I have not previously attended an I.C.A. Insurance Conference of this type. I think the remarks that the speakers have made are only too kind. I do believe, as they do, that it is necessary to proceed carefully, with due attention to have accurate and timely and appropriate data.

But I emphasise, once again, the very great difficulties that proceed from our lack of understanding of the Management's process as such. Many managers have, in a very astute way, managed their business largely by intuition. I believe I am not a critic of intuition. The whole feminine mind is presumed to operate on intuition—and one does not stand against that kind of power! But the difficulty with intuition is that it is very difficult to pass on to anyone else; and the conditions, under which intuition is used, may change suddenly and the intuition that was previously successful would not longer be so.

Let me conclude to say that I am no apologist for automation or needlessly scientific approaches to human problems. I share many of the views of Jacques Ellul, whose very fine book "The Technological Society" may be known to you. But I believe our problems in the near future are of such a nature that we must approach them with more formal analytical tools. It is to be hoped that if we do so we are mindful of our humanity and the impact of our operation on non-commercial or non-business values. Thank you very much.

CHAIRMAN: Thank you Mr. Hogan.

15. The extension and development of co-operative insurance as an alternative to the nationalisation of insurance

CHAIRMAN: Now we come to the next Paper: "The extension and development of co-operative insurances as an alternative to the nationalisation of insurance" by Mr. Back, of *Folksam*, Sweden.

MR. BACK: I am in the same situation as the Swede who went to Paris on business and in the first letter to his wife he explained how much he loved her and how much he was longing to be home and so on. So in the next letter he could only say in the beginning, "Regarding my love and appreciation of you I refer to my letter of earlier date" and then he could make the other letter very short and tell her to send some pants and other clean clothes for use in Paris.

So when I start this presentation of my Paper I can refer to a much longer Paper, and even that Paper is too short because it is a rather difficult task to explain all the problems seen and also not to use many examples. Even that I had to keep rather short and I had to choose: to write a much longer one and you haven't to read it, or to make a shorter one and get it read. So when I start this I have in my short presentation to generalise rather much. That's because it must be rather short.

So to begin I would like to refer to Dr. Saxena's remarks at the opening

of this Conference. He placed emphasis on the need for co-operative insurance to present a workable alternative to nationalisation. I found his comments to be particularly interesting since he is not an insurance man. He pinpointed quite correctly the problem of the investment programmes of the insurance companies co-operating in the developing countries.

In my Paper I have tried to compare the merits and de-merits of co-operation versus nationalisation. Some of these arguments are theoretical and we should acknowledge to ourselves that many of the obvious advantages of the co-operative form of enterprise have not been realised.

Besides our efforts on this problem in the developing countries we must be certain to preserve and expand the role of co-operative insurance in our own countries; particular measures which can be taken include:

- (1) bring additional popular movements, such as Trade Unions, into our organisation and offer them a place in our parliamentary structures. We should have them with us and not against us;
- (2) find new forms to satisfy increasing demands for democratic control and consumer influence;
- (3) actively work in the field of loss prevention and reduction of replacement and repair costs—it means that we have to consider a lot of things which are not insurance;
- (4) respond creatively to the needs of the consumers and the Co-operative and other popular movements.

We should not just be conservative followers of traditional insurance practice in our own countries. It is essential that we actually do those things that we claim make co-operative insurance societies better than private or nationalised insurance. We cannot wait until nationalisation knocks on our door—then it can be too late.

As I see it, it is high time to take some action. This should not be too difficult, as many popular movements, especially Trade Unions, consider insurance to be a most important economic area to safeguard. For the Trade Unions the insurance co-operative can be instrumental in achieving far-reaching results. In my Paper I have also made the point that a Trade Union movement cannot be sure that nationalisation really would be the solution. The objectives and activities of a nationalised insurance corporation would depend very much on which party or parties form the Government. A switch of Government might mean a change of policy for a nationalised insurance corporation. In short, a Trade Union movement might not at all be satisfied with the influence of a Conservative Government upon a nationalised insurance corporation. I do not think they are always aware of this crucial point. Therefore it is necessary for us in the insurance co-operatives to inform the Trade Unions and their leadership what co-operative insurance offers. This can be done only if we take the initiative and establish contact with the Trade Union leadership.

As to the field of loss prevention and reduction of repair costs, I would like to mention one additional point. Many have asked us why *Folksam* deals so much with this field. First of all I believe we have to assure the consumers that this Society works in their best interests, not only by providing insurance cover at a fair price and settling claims fairly and promptly. We have also to assure them that we have interesting programmes that will reduce the chances of loss occurring and if a loss occurs, reducing

its financial and social consequence. We are working very hard to achieve higher efficiency in our administration.

As many of us know, it is rather difficult to obtain a 1% reduction of the total administrative expenses. I consider it much easier to achieve a 10% saving in the claims costs in certain branches as auto, fire, water damage and some other insurances. However, then we must look into how the repairs are handled by those with whom we deal. It is a necessity to take an active interest to bring about new repair methods and to rationalise the different branches. Who would do it if we didn't? Who has got the real interest to rationalise and to reduce costs? I would answer: "None but the insurance companies and especially the co-operative insurance companies."

All the premiums we receive from our policyholders should work very efficiently for the policyholders' benefit. It doesn't matter if it is used for rationalising and cutting costs or paying claims.

I would like to conclude by saying that consumer interest is the decisive factor in determining the organisation of the insurance industry. There is much in favour of co-operation as a system which satisfies best the consumer's interest. We have to take practical steps and convince the popular movement, including Trade Unions, of the advantages of co-operation. It is not sufficient to be a co-operative company, we must act as a co-operative company should do and we must be able to tell the whole population what we are doing and what our goals are. We must tell the Government people, the Parliament people, the consumer and the Trade Union people.

CHAIRMAN: Thank you Mr. Back. Now I already have two speakers here. Mr. Holler and Mr. Binder. However, if any other members of the Conference want to speak on the subject kindly ask to notify the Chair. I shall ask now *Mr. Holler* from *Samvirke*, Norway.

MR. HOLLER: Mr. Chairman. Mr. Back has in his Paper given us a splendid general appraisal of several problems connected with the nationalisation of insurance companies, and the co-operative companies' possibilities of being an alternative in this connection. He has at the same time supplemented his theoretical reflections with practical examples from *Folksam's* activities in Sweden.

I should like to put forward some viewpoints based on *Samvirke's* experience from Norway. However, before I do this, I must say a few words about the parliamentary structure of *Samvirke* as I believe it will otherwise be difficult to understand our working methods.

Samvirke started as an ordinary co-operative company, but as from 1965 the Federation of Trade Unions in Norway became joint owner in the Company on an equal footing with the Co-operation. This immediately gave rise to a completely new situation as it gave the Company a direct organisational connection with the biggest and most effective organisation in Norway. Through the collaboration which was thereby established between the Trade Union organisations and the Co-operation, the basis was formed for a most lively activity on the part of the Trade Unionist with the object of arriving at rational forms of insurance.

The criticism levelled at insurance companies and the demand for nationalisation of insurance activities are, as Mr. Back has clearly pointed out, based on several different circumstances. I shall concentrate here on two of the questions that have been raised.

The first question concerns the criticism to the effect that insurance activities are ineffective and expensive and that a nationalisation can, therefore, further a reorganisation which will be to the benefit of the consumers.

The second question is connected with the allegation concerning lack of democracy in insurance activities; insufficient influence on the part of the policyholders; the company and the man-in-the-street stand far apart; and the critics usually end up by saying that in the event of nationalisation the publicly elected representatives and constitutional bodies in the community will gain control and this is to be preferred from a democratic point of view.

I do not consider it to be my concern here to take a standpoint for or against nationalisation. It is a most complicated question which can give rise to many arguments. Nevertheless, I believe it may be right to say that the demands for nationalisation, demands which have been especially strong within the Trade Union movement, have been damped down considerably in Norway recently, and I believe that one of the reasons for this may be the manner in which the Trades Union-Co-operative Insurance Company has tried to attack the problem.

In this connection I wish to mention two of our big collective insurance schemes as examples. The one concerns the much discussed collective home insurance—the householder's comprehensive policy. This insurance is closely connected with membership in the Trade Union and the premium is collected through the subscription. The insurance scheme is first and foremost characterised by three things:

- (1) it gives economic security for the policyholder as all under-insurance has been removed;
- (2) the members have through their organisation a decisive influence on the forming of the insurance scheme and on the decision of settlement of claims where there may be doubt;
- (3) the scheme is most rational and thereby cheap.

The policyholder has full economic security for his furniture and personal chattels for a price of Norwegian Kroner 30·00 a year. It may be difficult to convert this into the currency of other countries, but let me say that it corresponds to less than two hours' wages a year for an ordinary industrial worker. As far as I understand no nationalised industry can actually do it cheaper. The reason it is so rational is because it is based on an organisation and its facilities which are already established. The insurance scheme is merely connected to the existing facilities and the subscription is adjusted for the necessary sum. There are absolutely no administration costs on the premium side.

This insurance scheme comprises today about 25% of the wage earners in Norway and when it is fully developed it will presumably cover between 35 and 40% of the wage earners.

The other collective insurance scheme I wish to mention is what we in Norway call the basic insurance, that is to say, a combination of Group Life insurance and collective accident insurance. This is, of course, a well-known and traditional form of insurance which is used by many companies

in many countries and consequently it is not the form of insurance in itself which leads me to mention it. I mention it because I believe it may be of some interest to look at the methods that were used in order to put the insurance scheme into effect.

At the Norwegian Trade Union Congress in 1969, insurance was taken up as one of the high priority fields of work for the organisation. The fact that it was possible to have the matter taken up as a separate point on the Agenda of the Congress was due to the collaboration between the Company and the many active Trade Union representatives. Through the Trade Union Congress dealing with the matter the basis was formed for a mass marketing of insurance which has not previously been experienced in Norway. A large number of Trade Union representatives were engaged. Between 4,000 and 5,000 informative meetings were held all over the country. Information was given of this form of insurance as well as explanations as to why the old and more primitive benefit schemes should be reorganised to this new and modern form of insurance. *Samvirke's* entire external organisation was engaged in this informative work. The aim of the entire informative process was that the insurance scheme was not, and this is the important point, was not to be adopted by Boards of Directors or competent bodies within the Trade Unions alone. The aim was that the final decision was to be taken by way of a regular poll among all members who were involved in the matter. More than 120,000 members took part in the poll and of these about 80% answered "Yes".

Today the insurance scheme comprises about 30% of the total number of wage earners in Norway and fully developed it will presumably be nearly 50%. The reason why I mention this scheme is because it was possible in this way to involve and activate a large number of individuals. The plan led to insurance questions becoming part of everyday life at places of work. People took interest in the matter, insurance was discussed, and unusually good contact was established between the Co-operative Insurance Company and the Trade Union on the one hand, and each individual member on the other hand. It was seen that insurance became something close and living where the family's security was the central point in the discussion, and it was seen that it was fully possible, within the scope of the existing organisation to reach a rational and efficient solution without turning to nationalisation.

Finally, I wish to mention that we have tried to follow up in several ways in Norway the heavy involvement both on the part of the members and on the part of the many Trade Union representatives in this matter. Close on 2,000 so-called Insurance Committees have been set up in all large concerns. These Committees consist of three to five persons and their task is partly to work with the object of spreading the insurance idea among the members at the place of work and partly to bring back to the Company the views and impulses of the members.

I believe I am justified in saying that our experience in Norway makes it natural to draw the conclusion that it is possible for a co-operative company to develop cheap forms of insurance through close collaboration with the big national organisations. It is possible to involve the many representatives within the Trade Union organisation and also large groups of

individuals in such a manner that it creates a great interest and enthusiasm for the insurance idea.

When our democratically built-up national organisations take up and involve themselves in insurance questions the demand for nationalisation appears in a way to be a minor and decreasing interest. A solid anchoring of the insurance idea in the big democratic organisations, and a utilisation of their facilities to further rational mass marketing, appears therefore to be a very close alternative to the nationalisation.

CHAIRMAN: Thank you, Mr. Holler. I will call now Mr. Binder of *Wiener Städtische*, Austria.

MR. BINDER: I should like to put what I have to say under the heading "Self-organisation or Nationalisation". I feel that we should constantly be aware of what we look like to see whether what we are doing makes sense today, and whether what we have thought yesterday will be valid for the future.

That's why I believe we ought to contemplate each day anew the question: if we should say no to nationalisation of insurance, to what degree and by which arguments; and why is co-operative insurance an alternative to it?

I don't believe that a final and generally valid point of view can be found in the experience of one single country; the less if it is a small country. I would like to take Austria as an example, because I know its special situation and it provides some valuable hints.

During the last 15 years we have had an unparalleled period of economic upswing. Never have we had it as good as we have it today. We have an economic system modelled along Western lines, though much of our heavy industry, energy, production and banking has been nationalised for 27 years. Agriculture is based on private ownership, but is organised to a very high degree. Maybe more than in countries where organisation is much more propagated.

Nowadays no section of our population questions our economic system or the given nationalisation. Therefore, we have to be careful in arguing and have to take into consideration this economic and psychological background. It is not possible just to despise nationalisation of insurance and to set against it the co-operative solution as an alternative. I would like to go deeper into this question and to argue why we prefer a concept of self-organisation to nationalisation.

There was never public opinion in favour of nationalisation of the insurance industry. Maybe the broad experience with nationalised companies cleared the view and made their advantages and disadvantages visible to a cool-eyed public. There are no political emotions in this question anymore.

In other countries, the request for nationalisation of insurance is aimed at life insurance. It seems remarkable that during the last 25 years nobody in our country has requested that. Nationalisation of life insurance has as its goal the exposure of its reserves to direct government administration. In countries like Austria, where people after two lost wars very well remember the break-down of currencies and insurance companies, it is well

understood that the fortunate resurrection of life insurance would not have been possible under the sole guidance of a government agency. In Western countries government activity at the consumer level is viewed by the public with mistrust and antipathy. The public wants a strong and free insurance industry to defend its interests against the government's power; this is also true if insurance and government hold good working relations.

There is one more point: The basic principles and methods of life insurance are very old and there is little room for fundamental innovations. But there exists a necessity to adapt its methods to the present economic and social conditions and environments. This constant adaption is not considered the probable way of a nationalised monopoly. A Chancellor of the Exchequer, familiar with nationalisation, knows that very well. And he certainly is aware that self-administered life insurance is in the long run a better partner in budget and monetary politics than a national life insurance monopoly.

On the contrary the nationalisation of automobile insurance is requested with some strong and valid arguments, not easily done away with. Our knowledge of the disadvantages of a bureaucratic claim-settlement and the services private insurance renders is not sufficient.

In 1971 Austria came under the impact of some price rises for bread, milk and butter, which caused public resentment. At the same time the car insurers asked for some necessary premium adjustments. The reaction showed how the motor-car premium has become a political question. Suddenly, the price rises for bread, milk and butter passed without much reverberations and everybody was discussing why is the premium loaded with the costs of competing companies, salaries of agents and commissions, and why claims agents and a lot of institutions are needed to settle the claims?

It does not help to compare the ideological and psychological misgivings of an insurance monopoly to the advantages of the existing system. We have to prove what an industry is up to—and especially what the co-operative insurance industry is up to—to help the consumer; which initiative and ability are developed in the technical and service field; which representation to the insured and furthermore to the public, is given in working out the conditions and premiums of third party liability car insurance. In short, the world is consumer representation.

In search of solutions, an institution of consultation was installed, nicknamed "the council of the eight wise men". It consists of representatives of the State, the Trade Unions, the Chambers of Commerce, the Workers' board, the automobile organisations, agricultural organisations and insurance industry. This consultative board is more than a public relation gimmick or just another committee without powers—it is a real bargaining body, fully informed. This system worked very well in 1972 when a necessary premium-rise was passed very smoothly.

As a conclusion, the question seems not to be: "Co-operative or nationalised insurance?", but is asked in the following manner:

Mankind is not only going through a process of democratisation, asking for ever more freedom to the individual and increase of influence in public affairs, but is also going through a period of uprising against any kind of authoritative tutelage in private life, in business life and at work.

This is contrary to the handling of such a personal matter as insurance by a bureaucratic and monopolistic institution. It may vary from country to country whether co-operative insurance is actually an alternative to nationalised insurance. But it will be an alternative if it becomes the supporter of the democratisation drive in our section of business life. Thereby, co-operatives will win the stamina and flexibility to overcome any monopolistic organisation of its market.

CHAIRMAN: Thank you, Mr. Binder. I now call on Mr. Matheson of *Co-operative Insurance Services*, Canada.

MR. MATHESON: Nationalisation is what we might term "hot discussion" in our country at the present time. When I say that in two of the 10 Provinces of Canada motor insurance has been nationalised, and that in a third Province this action will be taken within the next year, you can see that this is not simply a matter for discussion but a matter of decision-making in our country at this time.

When I mention to you that the Province in which this action will be taken within the next year means that one-third of the automobile insurance premium of our particular company will disappear will perhaps be some indication to you of our particular concern in this subject.

The subject is given here as an alternative. I think when we are discussing alternatives and when we are advocating one alternative, then it is always wise to acknowledge that under certain conditions the other alternative may be desirable. First of all because it will contribute to a more rational discussion, but also because we will be forewarned of the conditions under which our proposed alternative may not be acceptable. In this context I would suggest to you that nationalisation of any insurance service will be considered advisable and acceptable if:

- (1) that insurance service is not readily available to all the people who desire it; and
- (2) if the cost of that insurance service is not equitably spread among those using the service, particularly if the cost of that insurance service bears too heavily on any particular section of our population.

I would just mention that we have Nationalised Health plans around the world and will have more of them because Health insurance has failed to meet these two requirements. If you do not have Health insurance in your country now to a great extent I suggest that you will very quickly unless these requirements are met.

However, outside of these points, if we are to present co-operative insurance as a satisfactory alternative to nationalisation we must be most thoroughly convinced of the worthiness of our own cause. This perhaps will mean taking a new position. Most co-operative insurance companies with which I am familiar were developed as an alternative to private companies and in effect to replace them. But I suggest today that the greatest challenge facing the future of our co-operative insurance sector will now come from the other side and we must be prepared to present our case as an alternative to nationalisation or accept the fact that we no longer justify our existence. I am very much concerned about the hesitation in co-operative insurance

circles to accept this challenge, and it seems to me that the reasons given for this hesitation fall in two general areas. First is an attitude that: "It can't happen here. Those crazy Canadians may do this but we are good solid citizens in our country and this isn't going to happen to us." Well, it may. The second reason given is that: "This is not a pressing problem, we have too many other important things pressing in upon us; and don't concern me with something as vague as nationalisation of insurance." I suggest to you that if, perhaps, we will accept a challenge such as this it may help us a great deal in solving what we now consider many of our present problems, because we can only meet this challenge by developing, as Mr. Back has suggested, by developing a level of efficiency within our organisation and a level of consumer interest and contact without our organisation that will be capable of meeting this challenge. Just to touch on one area, I suggest that if you meet these two challenges you will not have to spend so much time wondering how you are going to motivate your employees and how you are going to have an effective public relations effort. Perhaps the best way is by producing results. We have really to determine whether we are attempting simply to maintain our organisation or whether we feel we are still working for a cause, as we were in our initial years.

In connection with the urgency of this question, I would again suggest that it may be later than you think, even in your own country. It is going to take time, as our previous speakers have indicated in their country, to develop a strong co-operative position as an alternative to nationalisation. I can say that in our own Company we have almost concentrated on this question in the last three years. But within the last month we have already learned that we should have started earlier. We feel that we have proven, from an economic standpoint, that co-operative insurance can provide, in the automobile insurance field, services more efficiently than nationalisation; but proving that to ourselves is one thing and getting public acceptance of it is quite another.

In closing I would simply warn you of the frustration that may be yours if you do not act quickly enough; that even after you have proven that your method is good and perhaps best, that Government action may remove the opportunity for you to continue in that field. Political decisions tend to be emotional rather than logical, at times at least. Now perhaps, you may say that it is impossible to fight emotion with logic and I might be inclined to agree, but at least in this case let us ensure that logic is on our side.

CHAIRMAN: Thank you very much Mr. Matheson for your very interesting remarks. Now I call Mr. Kularajah.

MR. KULARAJAH: Mr. Chairman and Fellow Delegates. I would like to mention two points which may be of interest to you.

The first one is about Ceylon, now known as Sri Lanka. I was invited by the Ceylon Government two weeks ago for discussions regarding co-operative insurance. One of their Ministers happened to visit Malaysia and had been taken to our Society and he saw for himself what was happening. And a few months later we received an invitation to visit him and to

have discussions with him. Ceylon, as you probably know, has nationalised insurance—but now they have changed their minds! They feel that *unless there is competition* the civil servants who run the insurance corporation will not run it efficiently. They have, therefore, decided—the Minister assured me that he was quite convinced of it—that the answer to producing better service to the policyholders, better insurance benefits for the policyholders, was by having a co-operative insurance society in Ceylon.

The other point I would like to mention for your information is regarding Malaysia itself. We started motor insurance last year. We started because we wanted to give our policyholders and the Co-operative Movement the best possible service under motor insurance. We were not members of the Tariff Association and therefore the normal tendency would have been to undercut the tariff risks. Naturally, based on the advice of our Actuaries from Manchester, we did not go about undercutting. We did something else—we cut commission rates. After all, everyone has to have motor insurance so why pay agents plenty of commission to get bad business?

The normal commission paid in Malaysia was from 30% to 35%. We said we would pay commission of only 10%. So, in other words, the Society had the benefit of more money, more premiums, for whatever we wanted to do and the only person who suffered was the agent. Fortunately the influence of the C.I.S. agents in Manchester was not there, they did not go on strike! They accepted the situation. We sent our officers round the country to explain why we were paying lower commission. After all, the co-operator who was going to take our policy would take our policy in any case—if the policy was good; if the claims were dealt with promptly; and if they were treated fairly. The net result was, and this is what is interesting, the net result was that the other insurance companies, who had been agitating with the Director General of Insurance for increase of premium rates, were told: “Follow the M.C.I.S. example.” They naturally got very wild but, as I said, the net result was that with effect from 1st October, 1972, that is this month, they all had to reduce their commission rates to 10%.

Now, as a co-operative insurance society, we benefited the consumer because there was no increase in the premium rate. The only decrease, as I said, was in the commission rate—that did not affect the policyholder. After all, the agents knew that getting motor insurance business was quite easy and if every insurance company paid—and it was decided that all companies should—only 10% without any other commission whatsoever, described under any other heading, the agents agreed to this rate of commission. And they have also agreed that they will submit audited certificates that the commission paid is not more than 10%. Thank you for your attention.

CHAIRMAN: Thank you Mr. Kularajah. There is no other speaker for this subject? Mr. Back, do you want to reply to the speakers?

MR. BACK: It is very difficult to say I shall reply to the speakers, but I can thank them for their support. All of them took up some problems which are very important. Some of them have been mentioned already and they are very important. We cannot pay too much attention to them. I noted

the good experience in Norway. And I would say that we in Sweden benefit from it, too, when there is a good relationship in another country between the population, the Government and so on, and the co-operative insurance company in that country. I would say that we cannot be uninterested when nationalisation is discussed in a neighbour country close to us, because there is always a fear of it coming through to us—it is not logical all the time. So we are very thankful when, in the countries around us, the insurance co-operative companies act in such a way and have such good contacts that the nationalisation problem is not there.

And I could say the same to Mr. Binder who stressed, for instance, what happened when the increase of premiums in motor insurance come up—the situation is the same in Austria as in Sweden. It is very necessary to explain to the people why you increase the premium; what part of the problem is affected—whether it be repair costs or the number of accidents and so on. And we must begin to tell this before we increase the premium, so that the people know that there is a situation arising and that the increase will come sooner or later. And then you can also begin to discuss the loss prevention problem when you need to increase the premiums. If the number of bad accidents increase, of course the costs increase and you need more money. But then it is also necessary to discuss whether we can do something about the increase in the number of accidents and also about the bad accidents. Then maybe you have got the consumers on your side.

Mr. Matheson and I have on many occasions in the past discussed this problem—but in Canada the situation is now there.

There is a problem in a very big country, with different States and so on, that in some of the States the co-operative insurance is very strong and in some of the States less strong and then it causes some discussion. But what we should bear in mind every time is “What is best for the policyholders?; for the public?” That, in the long run, is the only thing that can help us, because there is no need for a co-operative insurance company if someone else is doing it better. But if we are doing it better then there is need for a co-operative insurance company. This is the reason why I want to stress again that we should be creative in many respects; have good contacts; try to do better and better and better; and then to learn from each other.

What is very important is to make ourselves efficient and active, whether there is a monopolistic situation or not. I would not like *Folksam* in Sweden to be the only insurance company in Sweden—even if I do trust myself and our employees very well! We have to face the fact of what is the best. When we feel the competition I think our employees work most efficiently—and me, too—because we must be better than the others. We must be on time with every new insurance or every action we are taking, so I would not like us to be in the situation of being the only company. If we were, how could the policyholders know who was running the insurance best? Of course, we could always complain that we would never know when we were the best!

But today it is much better and I think the policyholders feel much happier that they can choose another company if they want to. And we shall not invite the Trade Union people and other people's organisations just to

get rid of a lot of critics; just to make it possible to be better; to get understanding; to make them be active in our company and help us to form better insurance for them. If we should invite them just to get rid of criticism we are doing it in the wrong way. All the time when criticism comes up it is either right or wrong—we must know what to answer.

We have heard this criticism, too, about agencies on commission, but I must answer that we are afraid to give them salaries—because if you pay them on commission you only pay if they do the job; and if they don't, you don't pay. It would be very difficult for an organisation to be completely without the commission for the agents, but it can be a scale of commissions and you can do research on how much for this and that.

In this field, when Mr. Kularajah referred to the situation in Ceylon—and I should mention that I have visited Mr. Kularajah and we have had many discussions—I think it was because of his Company. If you show them, when they visit you, that you are active and you do a good job, then they begin to think of doing as good as you are.

So it is important, when we have visitors from different countries, to open the doors and let them see what you do. So we never refuse to take any visitors from foreign countries and we spend a lot of time with them. We discuss how we work and why; and what kind of mistakes we make, so that they will not go and do exactly the same mistakes. They can do brand new ones if they absolutely want to!

And this is very important. This is a kind of public relations. I think the big companies should, more or less, have one man, or a lady, just to take care of foreigners coming, because a good public relation in that way can help companies in other countries. But, of course, everything which is international—and sometimes also when it is run by Government—takes time on how to handle it. The Chairman asked me, “Are you going to pass a resolution?” I don't believe very much in resolutions—and that's the problem—so I have no resolutions.

But what we could do is, at least, to put this problem to the Executive to consider what to do. Should we have a programme for it or what should we do to supply our Member companies with information about different problems in different countries and also to give them arguments for or against? I would say, like Mr. Matheson, that I am not entirely against nationalised insurance, not at all, but only in this field where the State is doing it better. So when we got Health insurance in Sweden *Folksam* supported it and said: “It's good because we couldn't do it as good as the Government could do.” Similarly, when a pension plan was introduced not many years ago, we were also in favour of that. If we are against nationalisation of insurance just because we want the business, then we are wrong. We should be against only when we know we can do it better.

CHAIRMAN: Thank you very much Mr. Back for your excellent report and your last remarks.

16. Availability of insurance in “High Risk” areas

CHAIRMAN: I call now Mr. Vanderbeek of *League Life/General*

Insurance Company, U.S.A. to present the last paper on "Availability of insurance in 'High Risk' areas".

MR. VANDERBEEK: One of the advantages of being the last to present a Paper is that you can make comments on the previous Papers. Now I should tell you with regard to Mr. Kularajah's Paper that he and I have an agreement: if I criticise his Paper I buy the dinner; if he criticises my Paper he buys the dinner. I think he gave an excellent Paper, and I would point out to him that there are 123 people coming to dinner tonight! With regard to Mr. Hogan's comments, you will recall that he mentions that in the United States we have the expression "Bigger the better". I would comment that his Paper, yes, it was the biggest Paper. I would also comment that mine is the shortest Paper, so in the United States we not only have big Cadillacs but also small Mavericks! In regard to Mr. Back's Paper, I am particularly appreciative of his Paper because my wife read it, liked it, came this morning and apparently has agreed to stay to hear my Paper. Thank you, Mr. Back. Seriously, I did think they were excellent Papers and I thought the comments on the Papers were also very valuable.

I had thought I would summarise my Paper. However, as some of you know, my summaries are often longer than the original Paper. So with your indulgence I will basically read the Paper and only make a few summary comments.

Mr. Vanderbeek then read his Paper (Appendix 14).

CHAIRMAN: I have up to now no speakers on this subject. Anyone wish to speak? Yes, Mr. Lindberg of *Folksam*, Sweden.

MR. LINDBERG: Mr. Chairman, Delegates. I would just like to make a few comments on Mr. Vanderbeek's excellent Paper. I read it with great interest and in his Paper he said, for example, that there is already some concern in Sweden about the rise in frequency of crime and the resulting increase in the crime insurance prices in that country. I think that's the understatement of the year! Sometimes I have the feeling that the newspapers and other mass media are not interested in anything else other than the rising of the crime figures in Sweden. Now it is not as bad as it seems to be and, for instance, the number of stolen cars and the thefts of belongings in cars have decreased during the last year.

But it certainly has had an effect on the insurance market and on the insurance prices. I would just mention one example. Some of you will certainly remember that some years ago we sent you information about *Folksam's* new home-owner's insurance policy. It was a comprehensive policy including, of course: benefits for fire and water pipe damages; theft; third party liability; and so on. It also included: theft of bicycles; a small travel insurance; limited personal accident insurance for housewives and pre-school age children; and legal protection. The price for all this package was 48 Sw. Kr., which is about U.S. \$10, for the whole country no matter if the policyholder was living in Stockholm or in a very rural area in the countryside.

I think we are now curing our hangover from this step. It was right when it was incepted, but the number of claims has increased so much that it has been necessary to make big differences in the premium. Nowadays the premium in Stockholm, for instance, for the same policy is 170 Sw. Kr. and it was only three years ago since we introduced that new home insurance policy. Even that 170 Sw. Kr. is not enough for the loss ratio we have today.

Some years ago we circulated to you the complete conditions of that new home-owner's insurance, and as Mr. Back said: "It is not necessary that you copy our mistakes—you can make brand new ones!" I will warn you that if you are just copying our terms and trying to introduce that old home-owner's insurance on your market, we have now, so to say, "strip-teased" our terms. Since you already have got the old terms I think it is fair that you all also get the "strip" version in the near future.

CHAIRMAN: Thank you Mr. Lindberg. I will now call Mr. Knighton of C.I.S., Great Britain.

MR. KNIGHTON: Mr. Chairman, I have been rebuking myself, whilst I have been here, that I have not prepared a written script to reply to Mr. Vanderbeek's Paper. But I am glad that I haven't, because if I had a script I couldn't now read it as I found my glasses in two pieces this morning when I arrived here—so it's just as well I did not go to the trouble of preparing a script. My reinsurance, in the form of a second pair of glasses, is in the hotel so that I am afraid that it's all right having the cover but you want it when you need it!

I am just going to preface what I am going to say by making a point, which we all know, and that is that we can only pay the claims that we have from the premiums that we receive plus any investment income. And that is the basic point in handling any form of insurance as far as I know, so we must remember this is a commercial enterprise and view these ideas of Mr. Vanderbeek's, which I applaud, from a commercial point of view.

I have heard about the assigned risks; I have heard about the Facilities; I have heard about the "FAIR" plan; I have heard about the "HUD" plan; but I have had no opportunity of understanding them in the sense of having to operate them.

I presume that as this Paper is presented at this Conference that Mr. Vanderbeek is expecting some discussion from countries where the situation is rather different. Now I have divided these problems into two parts, fairly clearly, but getting a little bit grey in certain areas. The first, I think, are those risks which arise from what we might describe as "human frailty"; and the second are those which arise where the individual has no control over the circumstances. The first one probably relates mostly to automobile insurance and I am glad that Mr. Vanderbeek elaborated his Paper in saying that this problem does not arise merely through a bad driver, but because of where he lives.

In the U.K. we have had third party personal injury insurance compulsory since 1930, some 42 years ago, so we have learned to live with it. And as another interesting point, perhaps, compulsory employers' liability insurance was introduced in the U.K. this year. Now the object

of this compulsion is not to protect the motorist or to protect the employer, it is to protect the innocent victim and I think that is what we must keep in mind. We rely upon the Courts in our country to suspend licences to drive or to impose disqualification from driving for a fairly considerable period. We have never regarded it as a responsibility of insurers to deprive an individual of his or her right to drive. After a suspension of a driving licence for dangerous driving or drunken driving, the insurance market in Britain has an understanding that the motorist, when his licence is restored, returns to his previous insurer and that insurer will quote him terms to get him back on the road. Now these terms are fairly severe and they apply until he proves that he is an average motorist. There is no written agreement about this, but the insurers understand that this is the market procedure. I do not see, really, why one should shed too many tears about this class of motorist. He is usually the author of his own misfortune.

At the second area I think are those matters concerning flood, wind-storm and the like. Now here again I would like to quote an example of a problem which goes back for many years in Britain. As long as I can remember householder's insurance provided cover against flood damage to the contents of private houses; but it was almost impossible to insure the buildings of private houses against flood until a few years ago, following major floods—by U.K. standards, not by American standards—when the Government came to the insurance market and said "Can you make flood insurance available." The insurers, as a market, agreed and said: "Yes, we will build this cover into all of our private dwelling house policies for a modest premium." The people living at the top of the hill were not very enthusiastic. They said: "We shall *never* be flooded." Nevertheless, the policies included that risk and the policyholders who wished to opt out could do so.

These are just two aspects, Mr. Chairman, Delegates, of an attitude which exists in Britain which may be different to other countries. The C.I.S. position, relative to the insurance market, may be different to our colleagues' connections in their own countries with other insurers but I feel, when you are tackling a problem of the kind which Mr. Vanderbeek's Paper ventilates, that this is clearly a matter for the insurance market to tackle among themselves in their own domestic sphere.

I also feel that it is very difficult for insurers to assume the responsibilities of their Government for action which clearly falls within the responsibility of Government. If I had my glasses with me I was going to read you something, but unfortunately I can't. You may have read, some of you, a report of the Monte Carlo meeting and this is an extract by Mr. N. H. Wentworth, Chairman of the Board of the *Continent Insurance Company* and if I stand far enough back perhaps I can just see this. Mr. Wentworth felt, strongly, that the U.S. Government should do more to alleviate social ills; for example, enforce stringent licensing and traffic laws; bring stringent law and order to the municipal level; enforce safety codes and reduce crime; instil greater respect for such representatives of authority as policemen and firemen and so on. Reading this I can understand Mr. Vanderbeek's problem that his philosophy may be quite different to ours but, nevertheless, I feel that this is an insurance market problem and one which on that basis should probably find a solution.

CHAIRMAN: Any other speakers? Mr. Vanderbeek, do you want to say a word? No. Thank you very much for your interesting Paper, and thanks also to all the speakers.

17. Election of Executive Committee

CHAIRMAN: And now, Gentlemen, we come to the last item on the Agenda—Election of the Executive Committee. But I would like first of all to tell you that Mr. Maurer has retired from his office with his Company and is also retiring as a member of the Executive and as Treasurer of our Insurance Committee. I am quite sure I am conveying the sentiments of this gathering by expressing our gratitude for the long service he rendered to our Insurance Committee. I am quite sure that this Conference will wish to record their appreciation of his service for 12 years on the Executive and of five years as Treasurer. If this is the case I would like you to show your approval and appreciation in the usual way.

The Conference delegates then gave Mr. Maurer a standing ovation to show their appreciation.

CHAIRMAN: Thank you very much. Well Gentlemen, as the Conference agrees, this appreciation will be formally recorded in the Minutes of this Conference.

Now we come to the election of the Executive. We have received eight nominations for the Executive as follows:

Mr. Back	...	...	...	...	<i>Folksam</i> , Sweden
Mr. Johnson	...	...	...	...	<i>Nationwide</i> , U.S.A.
Mr. Kularajah	...	...	...	...	<i>M.C.I.S.</i> , Malaysia
Mr. Lemaire	...	...	...	...	<i>La Prévoyance Sociale</i> , Belgium
Mr. Matheson	...	...	...	...	<i>C.I.S.</i> , Canada
Mr. Rittner	...	...	...	...	<i>Volksfürsorge</i> , Federal Republic of Germany
Mr. Seeley	...	...	...	...	<i>C.I.S.</i> , Great Britain
Mr. Yamanaka	...	...	...	...	<i>Zenkyoren</i> , Japan

This means that since the membership of the Executive is now up to nine you may, if you wish, agree that all the eight nominees are elected en bloc. If this is your wish you have to express it. May I have a proposer? A seconder? Those in favour? So I understand the Conference agrees unanimously that all the declared nominees are formally elected members of the Executive Committee. I think Mr. Maurer would now like to say a few words to you.

MR. MAURER: Dear Friends. Let me say a few words of thanks. Thanks to my friends in the Executive Committee and thanks to all of you as well. Thanks especially for the very sympathetic sign of friendship I just received from you. Thank you so much.

In the first years of my activities, when I was a young man in *COOP-Leben*, we unfortunately did not have any international contact. It was war time and the borders were closed. It was in the year 1946, one year after peace, that the first post-war Conference was invited to Zurich. *COOP-Leben*, which was not yet a Member of the Insurance Committee at

that time, was invited to send observers to the meeting and so we did. Although there were relatively few participants in that Conference, which took place so shortly after the end of the war, we were impressed, my colleagues and I, were impressed by the amount of co-operative experience and professional skill which we found there. So we immediately decided to become a Member of the Insurance Committee.

In the following time we much profited from the fact that Switzerland seems to be a country which is not too bad for spending holidays. We enjoyed many visits from co-operators from many countries all over the world and this was a great benefit for us, and a privilege, both on the personal field and in the field of exchange of experience. Please do continue to pay a visit to *COOP-Leben*, also in future when you visit our country. I think this underlies what was said by our friend, Mr. Back, this morning, that we should visit each other, and you are cordially invited to come to *COOP-Leben*.

In 1960 we had the great honour of hosting a full Conference in Lausanne, in the western part of Switzerland. Last Friday night, when we had dinner in the cellars of the castle on the other side of the Vistula—I do not remember the name of this castle—I was much reminded of the evening we had together in the Chateau d' Oron, a middle-aged castle near Lausanne, an evening which some of you may still have in memory.

It has been a great honour for *COOP-Leben*, and for myself as well, to take part since 1960 in the work of your Executive Committee. Here I was soon aware that international co-operation is not always easy, even between co-operators who by definition should know, and to a large extent do know, what it means to co-operate. I have to thank all my friends in this Committee that they have given me the opportunity to take my lessons and to learn, at least a little bit, what is international co-operation and international understanding.

I would like to close with a very short summary of what is, perhaps a lifetime's experience. My professional career started in the huge, very big *Swiss Reinsurance Company* in Zurich—some of you know it. When, at the age of 33, I had the chance of entering *COOP-Leben* this responded to a large extent to some desire I always had, the desire not only to render service to somebody, say to very important persons, for instance, but to render some service to the whole population—that means to people, including those who are not in a privileged situation. I think co-operation, when it is real co-operation, is a synonym of service to people. When I look back I think it was very much on the same lines that my wife and I decided, in 1965, that is seven years ago, to give a considerable amount of our time and efforts to church work in overseas countries. As some of you know, since a few months I have even retired to about 90% from my insurance activities, from all my insurance activities in order to have more time for developing work in developing countries. This is also the reason I kindly asked you to relieve me from my duties here.

I am much obliged to you and to my friends in the Executive Committee for your indulgence to have let me participate so far in the work of your Executive. I repeat that it has been a great honour, a great privilege and a pleasure as well for *COOP-Leben* and for me personally. I thank you.

CLOSING ADDRESS

CHAIRMAN: My Dear Friends. We have had, I believe, an interesting Conference. The Reports were remarkable and they will, with the material which will be gathered by the various appropriate Commissions, form a documentation beneficial to all of us. I want to thank warmly the various speakers who animated our debate.

Your Executive will, before the next Conference, try to solve the problems and try to lead towards an attempt to a solution. Before the next Conference, through either the Bulletin, edited by the Secretary, or by direct correspondence you will be kept informed of what is going on or at least of the most important happenings.

At the end of this Conference I would like in your name to thank the various Polish authorities for the facilities offered to the Conference and I include *WARTA*, *ORBIS*, the hostesses and other employees. A special thanks also to the interpreters who did a wonderful job and for which we feel very grateful. I want to pay a special tribute to three men who have accomplished fantastic work in preparing the Conference, they are: Mr. Edwards, who for months prepared every detail important to the success of this Conference; and Mr. Dahlberg and Mr. Roman, of *Folksam*, who had to come several times to Warsaw to negotiate the necessary arrangements for the disposal of Conference rooms and also, and what a task, to accommodate the delegates of the Insurance Committee in the various hotels. Thank you Mr. Edwards; thank you Mr. Dahlberg; and thank you Mr. Roman.

Before adjourning the Conference I want to thank you all for your friendly co-operation to make it easy to Chair the Conference.

I declare formally closed the 16th Conference of the Insurance Committee

Applause.

The Conference was concluded at 12.15 hours.

SECRETARY'S REPORT

Immediately following the Conference in Hamburg in 1969 the Executive Committee elected the following officers who have remained in office since their appointment :

Chairman: Mr. R. Lemaire; *La Prévoyance Sociale*, Belgium

Vice-Chairman: Mr. N. A. Kularajah; *Malaysian Co-operative Insurance Society*, Malaysia

Secretary: Mr. H. Seeley; *Co-operative Insurance Society*, Great Britain

Treasurer: Mr. W. Maurer; *COOP-Leben*, Switzerland.

The other members of the Executive Committee who were elected at the 1969 Conference, namely Messrs. K. Back of *The Folksam Group*, Sweden; D. E. Johnson of *Nationwide Insurance*, U.S.A.; and G. L. Matheson of *Co-operative Insurance Services*, Canada, have all also served the Committee throughout the three years since their election.

The two sub-Committees, the International Co-operative Reinsurance Bureau and the Insurance Development Bureau have continued their successful work, as you will see from the Reports which have been submitted to you.

The I.C.R.B. members, Mr. R. Lemaire, *Chairman*, Mr. H. H. Knighton of *Co-operative Insurance Society*, Great Britain, *Secretary*; Mr. D. E. Johnson; and Mr. K. Lindberg of *The Folksam Group*, have remained unchanged since the 1969 Conference.

The existing members of the I.D.B. in 1969 were all re-appointed with the addition of Mr. W. Rittner of *The Volksfürsorge Insurance Group*, Federal Republic of Germany; whilst in early 1971 Mr. Y. Yamanaka of *Zenkyoren*, Japan was also appointed to the I.D.B.; it being considered by the Executive that both these new members would bring valuable experience to the work of the Bureau.

Mr. R. Rennie of *Nationwide Insurance* resigned from the I.D.B. and was replaced by Mr. W. E. Fitzpatrick, also of *Nationwide Insurance*. The other members of the I.D.B., namely: Mr. K. Back, *Chairman and Secretary*, and Mr. J. B. Aponte of the University of Pennsylvania, U.S.A.; and Mr. O. Binder of *Wiener Städtische*, Austria; Mr. B. Kalms of *Raiffeisen*, Federal Republic of Germany; Mr. M. Nussbaum of *Hassneh*, Israel; and Mr. R. Vanderbeek of *League General/Life Insurance*, U.S.A. have remained unchanged since 1969.

Since the Executive Committee met immediately following the last Conference they have held three meetings in each of the years 1970-1972 and they will meet again on the day before the 1972 Conference opens.

The Resolutions of Appreciation which the 1969 Conference unanimously passed and resolved should be reproduced and presented to Mr. Henri Lemaire, of *La Prévoyance Sociale*; Mr. Seved Apelqvist of *The Folksam Group*, and Mr. Bowman Doss of *Nationwide Insurance*, as a token of our

gratitude to them for their many years of service to the Insurance Committee, were duly reproduced and presented to them.

The resolution passed at the 1969 Conference that the I.C.A. be asked to incorporate in their "Declaration of the I.C.A." for 1970 and 1971 reference to the necessity for improving the unsatisfactory conditions which have resulted from the exploitation of the environment was duly forwarded to the I.C.A. The 1970 "Declaration of the I.C.A." affirmed in its international declaration of consumer rights that "consumers have the right . . . to adequate standards of safety and a healthy environment, free of pollution."

In 1970 the I.D.B. submitted proposals for the founding of a Scholarship Fund to be used to train insurance personnel in developing countries and the Executive Committee allocated the sum of U.S. \$10,000 (£4,165) to this Fund from the Insurance Committee Fund. The I.D.B. was appointed to administer this Scholarship Fund and the first scholarship, for the sum of U.S. \$2,500 was awarded early in 1972 to an employee of *COOPREV*, Chile to assist in the cost of a two-year post-graduate course in actuarial science at the University of Michigan, U.S.A.

The interest shown at the last Conference in the idea put forward that the members of the Insurance Committee could perhaps collaborate to an even greater extent than they had done in the past resulted in the appointment by the Executive Committee of four small Commissions to study in detail the following matters:

- (a) International Co-operative Safety, Loss Prevention, Car Repairs, Health and Rehabilitation, Pollution of the Environment.
- (b) Transfers of Life Assurance policies between member Societies of policyholders taking up residence abroad.
- (c) The possibility of issuing common accident and other non-life policies by member societies and subsequent sharing of premiums and claims.
- (d) Investigation of the problems of insurance and investment funds.

The Commissions have all begun work and a successful Conference was held in Sweden on 27-29th September, 1971 under the auspices of *The Folksam Group* to discuss Loss Prevention, Repair methods and Pollution of the Environment. The Executive has recently accepted the Loss Prevention Commission's recommendation that a permanent Commission of three member societies be established to receive reports from all the member societies with a view to circularising information of special significance and to receive enquiries for possible sources of information on any aspect of loss prevention.

In continuation of the practice of holding seminars with the object of facilitating the exchange of information and ideas between Members, a Mid-Management Seminar was held in May, 1971, jointly sponsored by *Nationwide Insurance*, U.S.A. and *Co-operative Insurance Services*, Canada. This Seminar was very well attended and voted a success by those present. I would like to take this opportunity of thanking *Nationwide Insurance* and *Co-operative Insurance Services* for organising and sponsoring this successful Seminar.

A non-recurring gift of £1,000 from the Insurance Committee Fund to the I.C.A. was authorised by the Executive Committee to help reduce the current I.C.A. deficit. This gift was gratefully received by the I.C.A.

At the 1969 Conference the Executive Committee agreed to examine the suggestion made that a Nominating Committee be appointed to receive nominations for election to the Executive Committee. This matter was examined very thoroughly when the Executive Committee met in 1970 and in 1971 but it was finally decided not to appoint a Nominating Committee to receive nominations for the 1972 Conference election of Executive Committee members.

In 1969 there were 57 Member societies affiliated to the Insurance Committee and this membership has now increased to 70. In the last three years our Member in Australia for many years was taken over by another Australian company which I am pleased to report subsequently joined the Insurance Committee. Our other new Members came from Australia, Belgium (3), Canada (3), Colombia, Federal Republic of Germany (2), Holland, Italy, and U.S.A. Two other insurance co-operatives, one from Ecuador and one from the U.S.A., are expected to be admitted into membership before the end of 1972.

In conclusion I would like to say how very encouraging it has been in the past three years to see the increasing personal contacts made between the personnel of our Member societies and organisations, despite the difficulties of distance and expense. In these days of continuing world tension it is good to have the opportunity of friendly co-operation and unprejudiced non-political discussions which membership of the Insurance Committee of the I.C.A. provides for its Members. The understanding and collaboration which have been established amongst our members in the fifty years which have elapsed since Joseph Lemaire was inspired in 1922 to invite the insurance co-operatives of his day to meet in Rome are something of which he would be most proud.

APPENDIX 2

REPORT OF THE INTERNATIONAL CO-OPERATIVE REINSURANCE BUREAU

1. Operations of the Bureau

The following comparison indicates the progress of the I.C.R.B. since the last Congress in 1969—

	1969	1972
Number of Reinsurance Contracts in force ...	541	528
Number of Bureau Offices	35	35
Number of Countries	22	23
Total Annual Premium Income Exchanged ...	£4,901,000	£6,053,000*

* This represents an increase in premium income of 23.5%

The distribution of reinsurance by branches of business is—

Risk	No. of Contracts		Premium Income	
	1969	1972	1969	1972
	%	%	%	%
Fire	51.3	54.4	65.8	62.9
Accident	27.5	29.7	9.2	9.7
Motor	11.7	5.9	19.0	20.4
Marine	6.6	5.1	2.0	2.6
Life	2.9	4.9	4.0	4.4

The reduction in the number of treaties is due to rearrangements of reinsurance requirements and also to the non-continuance of treaties with certain companies. Treaties with *Orissa* (India); *Co-operative General* (India) and *East Pakistan C.I.S.* have been terminated.

National Co-operative Insurance Society. Australia has become a wholly-owned subsidiary of the *Co-operative Insurance Company of Australia*,

Melbourne. The treaties of the N.C.I.S. have been terminated and negotiations are taking place with the C.I.S. to consider the possibilities of developing reciprocal exchanges with Bureau Offices.

The nationalisation of non-life insurance in India has been introduced by the Indian Government. This will inevitably affect the volume of reinsurance business from the Indian insurance co-operatives.

On the other hand, exchanges of Life Reassurance have been commenced with the *COOP-Leben*, Switzerland and *League Life*, U.S.A. It is gratifying to note the increase in the number of treaties and the premium income from this branch of our operations.

2. Activities of the Bureau

(a) *Reinsurance Officials' Meeting*

A successful meeting was held at Columbus, Ohio in May, 1972 attended by 24 representatives from 19 Bureau Offices. Thanks are extended to *Nationwide Insurance* for acting as the hosts of this meeting, the fourth of its kind, previous ones being held in Brussels, Manchester and Stockholm. It is considered that meetings of the Reinsurance officials of Bureau offices provide a valuable forum for the exchange of information leading to closer ties between member offices and generally improving the efficiency of our operations.

(b) *Facultative Facility*

Following the last Conference in 1969 a working party was formed comprising A. E. Williams (*Co-operative Insurance Society*, Great Britain), D. Landin (*Folksam*, Sweden) and Irene Avondts (*La Prévoyance Sociale*, Belgium) to consider the possibility of making arrangements whereby Bureau Offices could obtain additional Facultative cover within the Bureau. As a result of their discussions 14 Bureau companies have entered into an agreement whereby automatic facultative cover can be placed for Co-operative risks providing capacity within the Co-operative sector up to a maximum of £216,000. The Committee record their appreciation of the valuable work done by the officials in bringing this difficult exercise to a successful conclusion.

(c) *Visits by I.C.R.B. Committee*

The Committee, which is comprised of:

Mr. R. Lemaire, *Chairman*, *La Prévoyance Sociale*, Belgium

Mr. H. H. Knighton, *Secretary*, *Co-operative Insurance Society*,
Great Britain

Mr. D. E. Johnson, *Nationwide Insurance*, U.S.A.

Mr. K. Lindberg, *Folksam*, Sweden

has held its Annual Meetings since the last Congress as follows—

1970—Columbus, Ohio, U.S.A.

1971—Bologna, Italy

1972—Wiesbaden, W. Germany

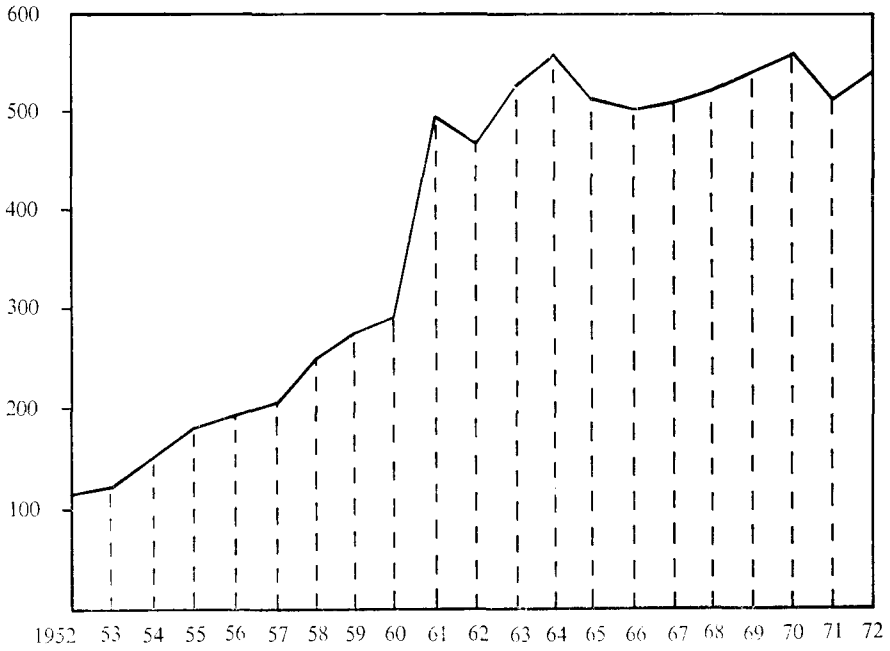
Following the meeting in Columbus, members of the Committee visited insurance Co-operatives in Canada and U.S.A.

The Chairman and Secretary visited the Netherlands in November, 1971; and *Australia*, in March, 1972, primarily to discuss the possibility of arranging reciprocal exchanges of reinsurance with the *Co-operative Insurance Company of Australia*, Melbourne. Whilst in Australia visits were also made to other co-operative insurance organisations in Perth and Sydney where future exchanges of business may develop.

The Chairman and Secretary also took this opportunity to renew our contact with our friends at *Zenkyoren* in Tokyo.

Table 1.

**REINSURANCE CONTRACTS IN FORCE BETWEEN
BUREAU OFFICES**

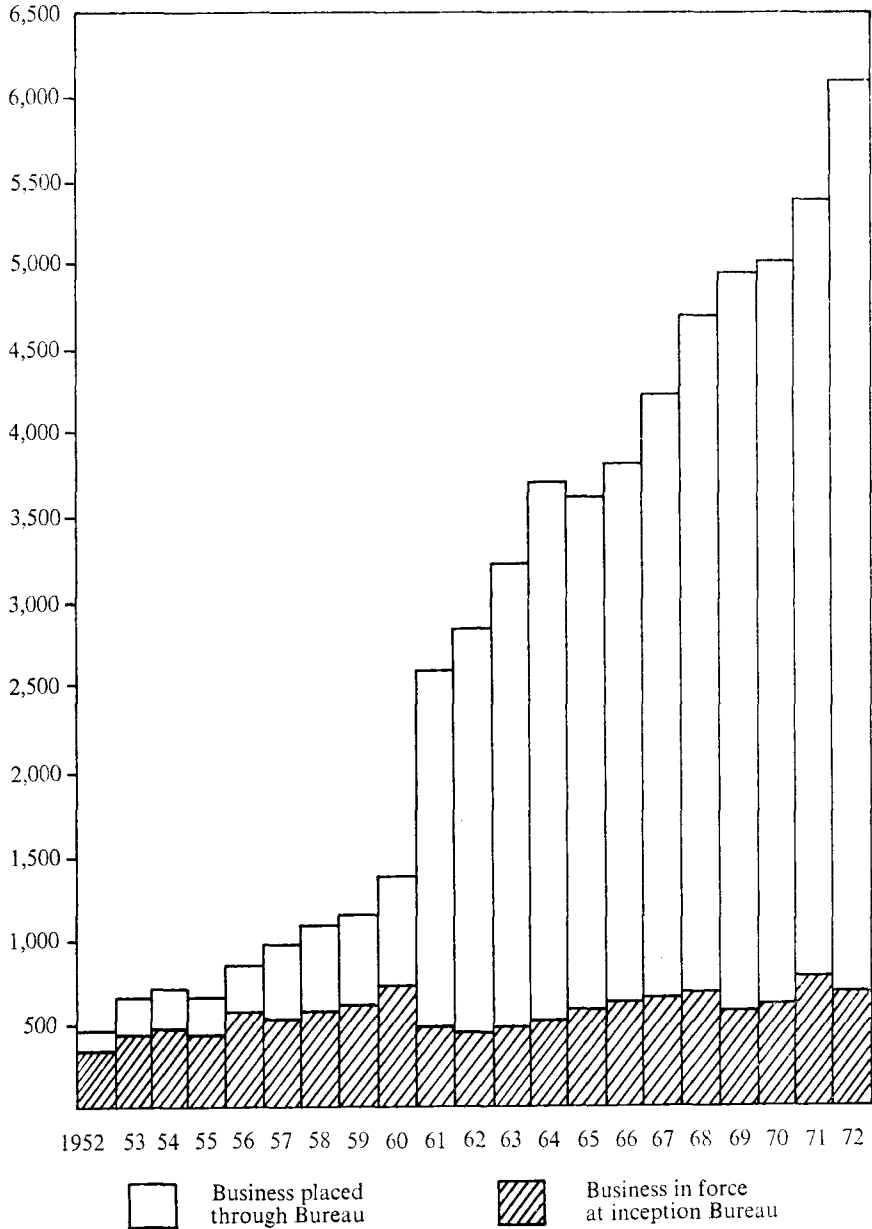


1952 : 117
1953 : 120
1954 : 148
1955 : 178
1956 : 194
1957 : 199
1958 : 253
1959 : 276
1960 : 286
1961 : 495
1962 : 473

1963 : 503
1964 : 558
1965 : 507
1966 : 500
1967 : 513
1968 : 522
1969 : 541
1970 : 559
1971 : 502
1972 : 528

Table II.
ANNUAL PREMIUMS

£(000's)



**REPORT ON THE WORK OF THE
INSURANCE DEVELOPMENT BUREAU, 1969-1972**

In pursuance of the work programme for 1969-1972, approved by the Executive Committee at their meeting in Hamburg in August, 1969, the Insurance Development Bureau (IDB) continued its work on the development of co-operative insurance.

The present report, which is the third since the inception of the IDB, is divided into the following parts :

- 1. Composition of the IDB**
- 2. Co-operative insurance developments :**
 2. 1—Establishment of new insurance co-operatives.
 2. 2—Africa.
 2. 3—Asia.
 2. 4—Europe.
 2. 5—Latin America.
- 3. Proposals for establishing a Risk Fund in connection with the Loan Guaranty Fund**
- 4. Educational activities**
 4. 1—Seminars.
 4. 2—Scholarships.
- 5. Publications**
 5. 1—Brochure on Crop and Livestock Insurance.

1. Compostion of the IDB

At the Hamburg meeting, the Executive Committee appointed the following persons to the IDB:

- Mr. K. Back, Chairman and Secretary, *Folksam*, Sweden.
- Mr. J. B. Aponte, Puerto Rico.
- Mr. O. Binder, *Wiener Städtische*, Austria.
- Mr. B. Kalms, *Raiffeisen*, West Germany.
- Mr. M. Nussbaum, *Hassneh*, Israel.
- Dr. R. A. Rennie, *Nationwide Insurance*, U.S.A.
- Mr. W. Rittner, *Volksfürsorge*, West Germany.
- Mr. R. Vanderbeek, *League Life*, U.S.A.
- Mr. R. Lemaire, Ex-Officio, *La Prévoyance Sociale*, Belgium.
- Mr. H. Dahlberg, *Folksam*, Sweden, was appointed Assistant Secretary.

Due to other assignments, Dr. R. A. Rennie resigned in 1970. At the Insurance Executive meeting in Tokyo in January, 1971, Mr. Y. Yamanaka, *Zenkyoren*, was appointed a new member of the IDB and Mr. W. E. Fitzpatrick, *Nationwide Insurance*, was appointed in the place of Dr. R. A. Rennie.

Three meetings were held during the period, in August, 1969, in Hamburg; May, 1970, in Columbus, Ohio, U.S.A.; and January, 1972, in Nairobi, Kenya.

2. Co-operative Insurance Developments

2. 1—Establishment of new insurance co-operatives

2. 1.1—Ecuador

The Ecuadorian Credit Union Federation established their own insurance co-operative in 1970. On the recommendation of the IDB, *Allnations, Inc.* provided a loan guarantee to the Ecuador Credit Union Federation in the amount of U.S. \$35,000 which sum was borrowed by the Federation from the International Co-operative Bank, Basel. The new insurance co-operative, the *Cooperativa de Seguros del Ecuador*, started its activity on January 2, 1971. In December, 1971 the total sum insured for savings and loan protection insurance amounted to U.S. \$6·8 million. The loss ratio was 37·8%.

2. 1.2—Singapore

The National Trade Union Congress (NTUC) of Singapore has established their own insurance co-operative, *NTUC Income*. Prior to the establishment advice on the feasibility and on the technicalities of starting a new insurance business was given to the NTUC. Also, a sales adviser was made available to the *NTUC Income* for a one-year period. Through efforts of the NTUC to obtain UNDP funds allocated to Singapore, the adviser was stationed in Singapore on an ILO assignment.

Operations started in November, 1970. By the end of 1971 the sales amounted to U.S. \$7.3 million in 5,000 proposals. The amount of premium collected amounted to U.S. \$135,000.

2. 2—Africa

2. 2.1—East African Insurance Study

In 1969, IDB was contacted by the ICA Regional Director for East and Central Africa, in Moshi, about the possibility of providing technical assistance to the East African co-operative movements. Similar wishes were expressed also by the co-operative leaders from Kenya and Mauritius.

When, in October, 1969, the Swedish International Development Authority (SIDA) sent out a Folksam team to Tanzania to survey the nationalised insurance operations in that country, the team took the opportunity of visiting Kenya and Uganda in order to assess the activities and plans for co-operative insurance developments in these two countries. The team recommended an integrated approach for co-operative insurance developments in East Africa through the location of an insurance expert at the ICA Regional Office, in Moshi, Tanzania, and through holding a Seminar on Co-operative Insurance for these countries.

2. 2.2—IDB Study Team visit to Ghana, Uganda, Kenya and Tanzania

In May, 1971, an IDB team of two experts visited Ghana, Uganda, Kenya and Tanzania to undertake a feasibility study of co-operative insurance operations in Ghana, and to assess the need of insurance training and similar assistance to co-operative insurance operations in Kenya and Uganda. In Moshi, Tanzania, the team visited the ICA Office and discussed the possibility of holding a Regional Seminar on Co-operative Insurance for East African countries, where West African participation could also be invited. The team submitted its report to the IDB suggesting action plans for establishing co-operative insurance operations in Ghana and Uganda and recommending training arrangements and assistance to the movements in these two countries as well as to Kenya.

2. 2.3—Kenya

The Kenyan National Federation of Co-operatives (KNFC) established an Insurance Department in November, 1970, in order to channel all the co-operative insurance business on an agency basis. The Danish International Development Authority (DANIDA)

provided an insurance expert to work for two years with KNFC under the Nordic Aid Project which has also provided funds for the employment of a counterpart.

KNFC is in the process of appointing an Insurance Committee to work with the planning and preparations for a co-operative insurance society.

2. 2.4—Ghana

The Co-operative Movement has for a long time desired to establish their own insurance operations. A co-operative insurance society was registered some years after independence but operations never got started properly. During the political developments of the Nkrumah period the society was liquidated.

In 1970 an Insurance Committee, set up by the Co-operative Movement, requested the ICA Insurance Committee for expert assistance in launching a new CIS and also for the training of two of their officers in co-operative insurance. When the IDB study team visited Ghana in May, 1971, it was found that a good amount of ground work had to be carried out in launching the new society, e.g., meeting the requirements of a high amount of guaranty capital; sorting out anomalies in the Insurance Act and the Co-operative Act; contact with the Credit Union Movement as to their insurance requirements and participation in the new society. The Ghana Co-operative Insurance Committee was asked to look into the action plan recommended by the study team and take the necessary steps towards launching the CIS.

Ghana Co-operative Insurance Society Ltd. will be registered and is expected to commence operations after the staff has been trained at the training institute of the State Insurance Corporation.

2. 2.5—Mauritius

The Mauritius Co-operative Union was earlier advised of the advantages to set up an insurance agency, initially, keeping in view the recommendations made by a team from the International Co-operative Reinsurance Bureau (ICRB) which visited Mauritius in 1963. It seemed later on, however, that they were exploring with CUNA Mutual the possibilities of getting insurance cover for the loans extended by the co-operative credit societies in Mauritius. During 1972 the Taxi Co-operative Promoters' Association came forward with plans to establish a co-operative insurance society. The Association has promised to

reply to the IDB Questionnaire on the need and possibilities of co-operative insurance.

2. 2.6—Uganda

In 1968 the Uganda Central Co-operative Union (UCCU) established an insurance department to function as an agency of the National Insurance Corporation of Uganda. The Co-operative Union has on several occasions expressed their wishes to launch an independent co-operative insurance society, which would take over the agency business and also enter other lines of business. At the time of the IDB study team's visit in May, 1971, discussions were held with the leaders of the Co-operative Union and the insurance agency. The UCCU indicated that they would send to the IDB a projection statement on the economics of the new society. IDB could then consider the possibility of providing necessary assistance for expert help and training. On the technicalities of starting an insurance co-operative, IDB is also in contact with Dr. Karl Reichel, an UNCTAD Adviser on Insurance to the Government of Uganda.

2. 2.7—Other African countries

In Nigeria the Government has for some years promoted co-operative insurance programmes which have not materialised. More recently the Co-operative Union of Western Nigeria has been in contact with IDB, seeking assistance in launching their own co-operative insurance society.

IDB has been in contact with the Sudan Gezira Board in supplying them material on co-operative insurance and the IDB questionnaire. The Board has been processing the completion of the questionnaire which could serve as a base for a feasibility study.

2. 3—Asia

2. 3.1—Philippines

The co-operative organisations in the Philippines have for a long time been in contact with the IDB with regard to their plans to start co-operative insurance. The various co-operative organisations involved have been advised to make joint efforts towards achieving a single co-operative insurance society. Lately, the credit unions in the Mindanao islands have been planning to start such operations.

2. 3.2—Taiwan

Both the urban and the agricultural co-operative movements in Taiwan plan to establish their own

co-operative insurance operations. In 1971, *Zenkyoren* arranged training for representatives from the agricultural movement. In December, 1971 and January, 1972 an insurance adviser from the USA made a feasibility study for an insurance programme to be sponsored by the urban movement.

The possibilities for the establishment of a single CIS are being explored.

2. 3.3—Thailand

Prospects of co-operative insurance operations exist in this country. The Savings Banks' Association had earlier shown their interest. With the strengthening of the co-operative movement, it is expected that the co-operative movement will come forward with co-operative insurance plans.

2. 4—Europe

2. 4.1—Malta

The trade unions in Malta had approached the IDB for assistance in the establishment of a CIS. A preliminary feasibility study undertaken this year showed that a CIS could possibly be established. Further discussions held with their trade union leader in Stockholm indicated the possibility of establishing a CIS under the Co-operative Act since there is no Insurance Act in the country. The General Workers' Union, the sponsoring organisation, seemed to have the possibilities of raising the necessary capital, arranging required staff and to seize a sizable part of the life insurance business in Malta.

2. 5—Latin America

Nine co-operative insurance organisations currently writing business in Latin America have received or are receiving assistance from ICA Insurance Committee affiliate Members and the Co-operative League of the U.S.A. under contract with AID.

Within the *League Insurance Group* a co-operative insurance specialist has been co-ordinating additional programmes and contacts.

The various types of assistance provided include preliminary visits to spread the co-operative insurance idea; feasibility projects; theoretical exposure to group coverages; meetings with insurance authorities; determination of premium rates; general management procedures; and reinsurance. The key factor for the organisation of six out of the nine co-operative insurers has been the credit unions' quality of leadership and ability to develop the size and strength required to support an insurance operation.

These organisations are:

1. Cooperativa de Seguros del Peru
2. Cooperativa de Seguros INCA, Peru
3. Cooperativa de Seguros del Ecuador
4. Insurance Department, Bolivian Credit Union League
5. Insurance Department, Hondurean Credit Union League
6. Insurance Department, Guatemalan Credit Union League.

The following three insurance co-operatives are the result of the support of all types of co-operatives, including credit and savings associations and trade unions:

7. Cooperativa de Seguros y Prevision (COOPREV), Chile
8. Union Cooperativa de Seguros (UCOSEG), Chile
9. Seguros "La Equidad", Sociedad Cooperativa, Colombia.

In 1971, the nine insurance co-operatives provided coverage to one million persons mainly through group life plans and, in a smaller scale, individual life and casualty coverages. The number of primary organisations supporting their services exceeded 700.

Life insurance volume was approximately U.S. \$200 million and the Life and non-Life combined yearly premium income was about U.S. \$1.3 million. The overall results of these organisations are fairly satisfactory. However, there is still room for substantial improvements and further developments which will mean a need for new assistance programmes and better communication channels.

During a visit of a *Nationwide Insurance* representative to *Seguros La Equidad Sociedad Cooperativa*, Bogota, in March, 1972 it was reported that the society was facing quite serious problems resulting out of operational losses. The member companies in North America have been taking an active interest in finding the ways to provide necessary technical assistance to the society.

2. 6—Other visits

In addition to the reported study teams, various members of the Executive Committee, the IDB and Member companies undertook visits to several countries, discussing plans and prospects for co-operative insurance.

3. Risk Fund in connection with the Loan Guaranty Fund

Based on the experiences gained in providing the *Allnations, Inc.* loan guaranty to the Ecuadorian Credit Union Federation in establishing their own co-operative insurance society, IDB submitted a proposal to the Insurance Executive for setting up of a Risk Fund. The loan guaranty provided by *Allnations, Inc.* is subject to certain conditions incorporated in its Articles, and the IDB held that the conditions of guaranty should be met as far as possible. However, in exceptional cases, e.g., where the net worth condition cannot be met by the co-operative organisations seeking the

guaranty, and the loan amount cannot thus be secured in full by the borrowing organisation, the " Risk Fund " could then be pledged for that part of the loan guaranty. Even in cases of losses resulting from non-payment of loan by the borrowing organisations, the " Risk Fund " could be utilised. The proposal to set up the Risk Fund will now be submitted by the Insurance Executive to the full Insurance Committee Conference to be held in Warsaw, October, 1972.

4. Educational activities

4. 1—Seminars

4. 1.1—ICA Seminar on Risk Management/Insurance in Co-operatives, Nairobi, 10-15 January, 1972

As a result of the discussions with ICA Office for East and Central Africa, the ICA office organised a regional seminar for East African countries. The IDB collaborated actively in this Seminar by providing lecturers from amongst the IDB members who had assembled in Nairobi for an IDB meeting. The IDB also made possible the participation of two Ghanian delegates to the Seminar by meeting their cost of participation. Similar assistance was also offered to the Co-operative Union of Western Nigeria, who could however not send any delegates.

The Seminar was attended by 38 participants from Kenya, Tanzania, Uganda, Zambia, Mauritius and Ghana. The participants were managers of co-operative organisations; members of the ICA working party on Credit and Finance for East Africa; and co-operative officers from the governments.

The Seminar faculty comprised the IDB members; Dr. K. Reichel (an UNCTAD adviser on Insurance to the Government of Uganda); an expert from CUNA Mutual, the manager of the insurance agency of Uganda Co-operative Central Union; and the DANIDA adviser on Insurance in the KNFC.

The subjects discussed at the Seminar covered a wide range of topical matters relating to the problems and needs of insurance in co-operatives; the economic viability of an insurance agency versus an insurance co-operative; etc.

The recommendations of the Seminar were that the IDB provide an insurance specialist to be attached to the ICA Regional Office for East and Central Africa, that the said ICA Office compile a Co-operative Insurance Operating Manual; makes available Model By-laws for co-operative insurance societies; arrange for provision of training in insurance; and advise the

Co-operative Movements how to approach their respective Governments with regard to a revision of the existing Insurance Acts.

4. 1.2—IDB Seminar on Machinery and Engineering Insurance

Insurance co-operatives in many countries have often felt the need to learn more about industrial risks. The IDB took contact with the *Munich Reinsurance Company* seeking their assistance in organising a Seminar on Machinery and Engineering Insurance. In order that the technical know-how of *Munich Re* and other facilities at their Company can be utilised. the Seminar is proposed to be held in Munich some time in 1973.

4. 1.3—Latin American Seminar on Co-operative Insurance, Buenos Aires, November 5–13, 1972

The *Asociacion Argentina de Cooperativas y Mutualidades de Seguros*, Buenos Aires, will be holding this Seminar in collaboration with the Organisation of American States (OAS) and the IDB. IDB approached the Swedish Co-operative Center (SCC) for financial aid for the Seminar. IDB will be sending a lecturer/resource person to the Seminar.

Co-operative insurance societies and co-operative organisations in 18 Latin American countries will be sending their delegates to this Seminar. The subjects to be discussed are: Importance of co-operative insurance; and organisational, technical, legislative problems in establishing co-operative insurance operations; etc.

4. 2—Scholarships

The IDB Scholarship Fund is meant to award scholarships to trainees from insurance co-operatives in developing countries.

One scholarship of U.S. \$2,500 was granted to an employee of *COOPREV*, Chile. The person concerned, who was working in the technical section of *COOPREV*, Chile, is now in the U.S.A., undergoing advanced training in insurance. The major part of the training costs will be borne by *COOPREV*, Chile.

5. Publications

5. 1—Brochure on Crop and Livestock Insurance

The Insurance Executive approved during 1972 that the IDB prepare a Brochure on Crop and Livestock Insurance with the object of collecting the maximum amount of information and experience on these risks. The IDB has initiated the work on this Brochure. Co-operation from member societies of the ICA Insurance Committee will be needed in seeking information about various countries.

APPENDIX 4

INSURANCE COMMITTEE

ANNUAL ACCOUNTS, 1969-1970-1971

1. Annual accounts

	1969 S.Fr.	1970 S.Fr.	1971 S.Fr.
Income:			
Fees paid by Members	64,530	72,081	81,408
Interest earned			
less 30% taxes (to be recovered)	8,959	12,380	7,641
without taxes			10,050
deferred interest			3,242
	<u>73,489</u>	<u>84,461</u>	<u>102,341</u>
Expenses			
Bankers' fees	9	13	408
Depreciations of bonds	—	—	3,183
Postage and telegraph	170	1,585	278
Office and printed material	6,910	4,265	8,545
Office—Secretary and Treasurer	8,638	8,635	7,846
Fiduciary	100	200	160
Property taxes	2,930	1,571	1,598
Receptions and Gifts	1,566	6,095	2,198
I.D.B. " Studies and Reports "	32,131	—	15,157
Meetings: Cost for Printing Report and Proceedings, translations, etc.	7,330	21,976	
	<u>59,784</u>	<u>44,340</u>	<u>39,373</u>
Excess of income	<u>13,705</u>	<u>40,121</u>	<u>62,968</u>

2. Change in assets

Assets at 1st January	308,353	325,897	371,323
Excess of income	13,705	40,121	62,968
Tax recoverable	3,839	5,305	3,275
Assets at 31st December	<u>325,897</u>	<u>371,323</u>	<u>437,566</u>

3. Composition of assets

Genossenschaftliche Zentralbank, Basel:			
Fixed deposits	320,000	385,000	175,000
Current account	2,058	4,713	19,642
Bonds:			
8% Alg. Bank Nederland 1969/74 nominal hfl.150,000, at 102.50% market value			184,300
5½% Genossenschaftl. Zentralbank, Basel 1971/74 nominal S.Fr. 60,000 at 100%			60,108
Deferred interest of bonds at 31st December			244,408
Tax recoverable from the Swiss Federal Tax authorities	3,839	5,305	3,275
	<u>325,897</u>	<u>395,018</u>	<u>445,566</u>
Deferred revenue:			
Secretarial expenses and cost of printing, translations, etc., not yet paid at 31st Dec.	—	23,695	8,000
	<u>325,897</u>	<u>371,323</u>	<u>437,566</u>

**VERIFICATION OF ASSETS
AS AT 31st DECEMBER, 1971
AND PROFIT AND LOSS ACCOUNT FOR 1971**

Profit and Loss Account 1971

In accordance with instructions received from Mr. W. Maurer, *Treasurer*, we audited on 13.7.72 the balance sheet as at 31.12.71 and the 1971 Profit and Loss Account.

As a result, we can confirm that the documents audited by us were correctly entered in the accounts,

that the balanced bank credit, taking into account additional entries, agreed with the corresponding statements from the *Central Co-operative Bank*,

that the securities listed under assets are freely deposited with the *Central Co-operative Bank*,

that the contributions from members have been duly received with the following exceptions:

Assurances U.C.C., Canada

N.V. Vemuco, Nederland

Co-op. General Insurance Soc., Hyderabad, India

Nat. Agric. Coop. Fed., Korea

Coop. de Seguros di Vida, Puerto Rico

Reminders were sent regarding these outstanding contributions but there is no obligation to pay contributions and outstanding amounts by the end of the year. Receipts include only those contributions received in 1971.

There has been a change in assets as follows:

Position as at 1.1.71		Fr. 371,323·50
Surplus income for 1971	Fr. 62,967·85	
Plus adjustment tax credit	Fr. 3,274·55	Fr. 66,242·40
Position as at 31.12.71		<u>Fr. 437,565·90</u>

Yours faithfully

COOP SCHWEIZ
Trustee Department
P. Lampert (signed)

Basle, 27th July, 1972

APPENDIX 6

ALLNATIONS, INC.

STATEMENT OF INCOME AND RETAINED EARNINGS

FIFTEEN MONTHS ENDED 31st DECEMBER, 1971

	U.S.S	S.Frs.	£
Income:			
Interest income	29,913	111,695	12,234
Loan guaranty fee income	410	1,531	168
Total income	<u>30,323</u>	<u>113,226</u>	<u>12,402</u>
Expenses:			
Taxes—other than federal and foreign	3,442	12,778	1,400
Amortisation of corporate conversion cost	355	1,326	145
Legal expenses	625	2,334	256
Accounting and other services	575	2,147	235
Consulting and auditing fees	250	933	102
Insurance	167	624	68
Miscellaneous	401	1,497	164
Total expenses	<u>5,795</u>	<u>21,639</u>	<u>2,370</u>
Other income:			
Net gain from foreign exchange	3,741	13,969	1,530
Income before income taxes	28,269	105,556	11,562
Federal and foreign income taxes	2,241	8,368	917
Net income	26,028	97,188	10,645
Retained earnings at beginning of period	14,248	53,202	5,828
	<u>40,276</u>	<u>150,390</u>	<u>16,473</u>
Dividends declared	2,984	11,142	1,221
Retained earnings at end of period	<u>37,292</u>	<u>139,248</u>	<u>15,252</u>

See accompanying note to financial statements.

ALLNATIONS, INC.

STATEMENT OF INCOME AND RETAINED EARNINGS

SIX MONTHS ENDED 30th JUNE, 1972

	U.S.\$	S.Frs.	£
Income:			
Interest income	11,834	44,188	4,840
Loan guaranty fee income	149	556	61
Total income	<u>11,983</u>	<u>44,744</u>	<u>4,901</u>
Expenses:			
Taxes—other than federal and foreign	1,737	6,486	710
Amortisation of corporate conversion cost	100	373	41
Legal expenses	250	933	102
Accounting and other services	400	1,494	164
Consulting and auditing fees	250	934	102
Insurance	172	642	71
Miscellaneous	149	556	61
Total expenses	<u>3,058</u>	<u>11,418</u>	<u>1,251</u>
Other income:			
Net gain from foreign exchange	0	0	0
Income before income taxes	<u>8,925</u>	<u>33,326</u>	<u>3,650</u>
Federal and foreign income taxes	991	3,700	405
Net income	<u>7,934</u>	<u>29,626</u>	<u>3,245</u>
Retained earnings at beginning of period	<u>37,292</u>	<u>139,248</u>	<u>15,252</u>
Dividends declared	45,226	168,874	18,497
	0	0	0
Retained earnings at end of period	<u>45,226</u>	<u>168,874</u>	<u>18,497</u>

See accompanying note to financial statements.

ALLNATIONS, INC.

STATEMENT OF INCOME AND RETAINED EARNINGS

TWENTY-ONE MONTHS ENDED 30th JUNE, 1972

	U.S.\$	S.Frs.	£
Income:			
Interest income	41,747	155,883	17,074
Loan guaranty fee income	559	2,087	229
Total income	<u>42,306</u>	<u>157,970</u>	<u>17,303</u>
Expenses:			
Taxes—other than federal and foreign	5,159	19,264	2,110
Amortisation of corporate conversion cost	455	1,699	186
Legal expenses	875	3,267	358
Accounting and other services	975	3,641	399
Consulting and auditing fees	500	1,867	204
Insurance	339	1,266	139
Miscellaneous	550	2,053	255
Total expenses	<u>8,853</u>	<u>33,057</u>	<u>3,621</u>
Other income:			
Net gain from foreign exchange	3,741	13,969	1,530
Income before income taxes	<u>37,194</u>	<u>138,882</u>	<u>15,212</u>
Federal and foreign income taxes	3,232	12,068	1,322
Net income	<u>33,962</u>	<u>126,814</u>	<u>13,890</u>
Retained earnings at beginning of period	<u>14,248</u>	<u>53,202</u>	<u>5,828</u>
Dividends declared	48,210	180,016	19,718
	2,984	11,142	1,221
Retained earnings at end of period	<u>45,226</u>	<u>168,874</u>	<u>18,497</u>

See accompanying note to financial statements.

ALLNATIONS, INC.

NOTE TO FINANCIAL STATEMENTS

Loan Guaranty

This company is a party to agreements with the Federacion Nacional de Cooperativas de Ahorro y Credito del Ecuador, Quito, Ecuador, and the International Cooperative Bank Co., Ltd., Basel, Switzerland, to guarantee the repayment of principal, interest and charges on a nine-year loan made in 1970 from the Bank to the Federacion in the amount of Swiss Francs 153,000. The unpaid balance of this loan amounted to Swiss Francs 102,000 or approximately \$27,254 at June 30, 1972. The loan is current with respect to both principal and interest as of June 30, 1972.

APPENDIX 10

**ALLNATIONS, INC.
BALANCE SHEET, 30th JUNE, 1972**

	U.S.\$	£	S.Frs.
Cash:			
City National Bank and Trust Company, Columbus, Ohio, U.S.A.	1,612	659	6,019
First National City Bank, New York City, New York, U.S.A.	2,848	1,165	10,635
Banque Centrale Cooperative, Basel, Switzerland	3,461	1,416	12,923
	7,921	3,240	29,577
Investments: (see Schedule I)	371,394	151,899	1,386,785
Accrued interest and loan guaranty fee income	10,144	4,149	37,878
Refundable foreign income tax	1,008	412	3,764
Corporate conversion cost	100	41	373
Prepaid expenses and other assets	389	159	1,453
	390,956	159,900	1,459,830

Liabilities and Stockholders' Equity

Liabilities:			
Accounts payable	900	368	3,361
Federal income tax	937	383	3,499
Foreign income tax	286	117	1,068
Other liabilities	1,213	496	4,529
Dividends payable	1,727	706	6,448
Deferred Federal income tax	1,053	431	3,932
Total liabilities	6,116	2,501	22,837
Stockholders' Equity:			
Common stock without par value, issued and outstanding 2,986 shares at stated value	149,300		
Paid-in surplus:			
From sale of stock in excess of stated value	149,300		
Donated—Loan Guaranty Fund	41,014		
	190,314		
Retained earnings	45,226		
Total stockholders' equity	384,840	157,399	1,436,993
Total liabilities and stockholders' equity	390,956	159,900	1,459,830

See accompanying note to financial statements.

**PROGRESSIVE MECHANISATION AND AUTOMATION
IN CO-OPERATIVE INSURANCE**

by: Mr. N. A. KULARAJAH, *Malaysian Co-operative Insurance Society*

Since the early history of mankind, the need to prepare, to communicate, to handle and to store information has occupied vast amounts of human thought. The development of mechanised tools to deal with this information has been a long and progressive one starting when Christopher Sholes presented the world with the first practical typewriter in 1873 and now culminating with the development of large-scale electronic computers suitable for commercial use. Today, administrators are faced with a bewildering array of machines which have been devised to deal with virtually every type of clerical operation. Each of these machines has been devised with the aim of lightening the burden or increasing the speed of routine office work; or providing information which would otherwise be impossible or uneconomic to generate. The growth of businesses in size and complexity, the demand for more information both by managements and governments and the existence of ever keener competition are some of the reasons for accelerated mechanisation in the administrative process.

At various stages of an organisation's development, important decisions about further mechanisation must be made, i.e., whether to commit the organisation to further heavy capital expenditure in order to increase their degree of mechanisation, or whether to re-organise or develop their existing procedures so as to derive the absolute maximum benefit from their present limits of mechanisation. The importance of making correct decisions at these junctures cannot be over-stressed as it is obviously vital to the future efficient functioning of the organisation. The extent to which each further commitment to mechanisation is successful in reducing work loads or speeding up work, will be directly dependent on how well the requirements have been thought through, and as a consequence of this upon the correctness of the decision made. This is a general rule applicable to all industries, but it is particularly important in a Co-operative Insurance organisation where all needs of members have to be catered for and an efficient service must be provided at the lowest possible cost.

As I mentioned previously, the earliest and perhaps the simplest form of office mechanisation is that of the manual typewriter. Obviously, however, in all but the smallest organisations the need for mechanisation goes much further than this. Indeed, the manual typewriter itself is to some extent being replaced by the electric typewriter which has the advantages of a better quality of output and the ability to produce a much larger number of clear copies, added to which, of course, there is also the advantage of much less operator fatigue. A whole range of attachments have been developed for typewriters which are useful in insurance, such as special feeding mechanisms to permit the use of continuous stationery and front feeding attachments which enable individual cheques to be prepared, whilst simultaneously preparing a continuous backing sheet which takes the place of a cash book.

Dictating machines are now used quite extensively in insurance with the obvious advantage of saving the time previously used by stenographers to take down shorthand. This change is convenient to executives and in my opinion is certainly more effective and efficient. The dictating machine installation itself may either take the form of individual machines for both dictators and typists or a centralised system where the executives dictate either direct into the internal telephone system or via special microphones located on their desks, whilst the message is received and recorded on a bank of machines in the typing centre. Insurance companies tend to send out a lot of similar routine letters to policyholders and where it is decided that the use of pre-printed form letters is not acceptable, automatic typewriters can be extremely useful. These machines enable a typist to select from a wide range of standard paragraphs which are typed automatically from either a paper tape or magnetic tape facility attached to the machine, leaving the typist to insert the variable information such as the name and address of the policyholder. It has been estimated that one typewriter of this kind can replace more than ten typists.

The addressing machine is one which at one time or other has found itself a place in most insurance organisations. The master record itself may take the form of either a metal plate, a small stencil in a cardboard frame, or hectographic paper, similarly in a frame. The system with which I personally am most familiar is that of the metal plate on which characters are embossed. This plate usually has a capacity for 46 characters and is nine lines in depth. Characters can be embossed on this plate by the use of a special embossing machine, although motorised typewriter-style embossing machines are now available which are operated just like typewriters. After the plates have been prepared they can be used on addressograph printing machines for the successive reproduction of all the information covered. In most cases, all particulars such as name and address, policy number, sum insured, amount of premium payable, mode of payment, agency number and other relevant details are embossed on the plate. This information is retained on the plate and reproduced to provide a premium notice, or a reminder or an acknowledgment of payment. Modern equipment of this kind is provided with selective devices which enable only parts of the information to be reproduced, and even to ignore certain of the plates altogether.

In all insurance companies, vast amounts of listing and totalling are always required. For many years, simple adding machines, either manually or electrically-powered have provided the answer to this problem. They come in a wide variety of types: some producing printed lists, others simply showing cumulative totals on visible dials, some having full keyboards covering each digit up to the maximum capacity of the machine, and others having simplified keyboards showing only ten digits. From these simple adding machines have been developed calculating machines which as well as dealing with addition and subtraction, can multiply and divide. These machines were initially hand-cranked or electro-mechanical in nature, but the present day calculator is based on electronics and is capable of providing a wide variety of functions in addition to those mentioned above. These machines are now quite reasonably priced and provide valuable assistance in insurance in such areas as the calculation of cash surrender values of policies.

Another type of machine, which has found a particularly useful application in my organisation, is the receipting and analysis machine. Receipting machines of various kinds are available and the capacity of machines of each manufacturer may vary depending on the price range and applications desired. Generally, pre-prepared receipts (prepared with the help of the addressograph machine) are fed into the receipting machine together with the policy ledger card (or the premium account card). When the information is keyed in, the receipt is validated and the premium account up-dated. Simultaneously, an audit roll is produced taking the place of the cash book. At the end of each day, the analysis totals of the various columns, such as premiums, loan repayments, etc., are obtained and entered in the main ledger.

Similar to the receipting and analysis machines, accounting machines of various types are available to undertake other accounting functions. Where payments are to be made the respective account cards together with the bank account card and a cheque leaf may be inserted and entries made simultaneously on all and a cheque produced. At the same time, entries made on the proof sheet of the machine could take the place of the (Payments) cash book. As time has gone by, accounting machines have become more and more sophisticated and have been developed into what the manufacturers like to call Visible Record Computers. These are basically similar to the larger types of accounting machines previously mentioned, but they have the added advantage of being able to pick up existing information from magnetic stripes placed on the back of the account cards. They also have the advantage of being able to perform a much wider range of functions automatically.

Insurance companies were amongst the first into the field of automatic equipment when they adopted punched card machines many years ago. Punched card machines were produced which could perforate coded information into standard cards and then verify this information. Other machines were used to sort the cards; to print index information on them from the information contained in the cards, to collate two or sometimes more packs of cards in a particular order, and also to print, tabulate and total the information punched in the cards on to a wide range of different documentation. In fact, the present day large-scale commercial computer was developed from punched card machines which are still working very effectively in many organisations.

One development back from the large-scale commercial computer is that of the desk size computer which, as its name implies, is a machine no larger than an ordinary desk, but capable of undertaking a multi-step program of operations. The input and output from these machines are normally through an apparently conventional typewriter.

As I said previously, the range of mechanised office equipment available today is virtually limitless and the time prevents me from entering into a detailed account of some of the other areas such as mechanised filing and retrieval equipment; microfilm equipment for first of all photographing information and later for displaying and printing that information; equipment useful in the mail room, such as franking machines, letter openers and sealers, and folding and inserting machines; equipment for conveying physical documents within a building or even in some cases throughout a

city; and also equipment capable of printing the vast amounts of computer output direct on to microfilm at very high speeds.

It would be remiss of me, however, if I were to leave the subject of conventional office equipment without mentioning that a number of insurance companies have found it worthwhile to set up their own inplant printing units. The core of these units is usually offset litho printing machines which can produce high quality print on a wide variety of sizes and types of paper, often in a number of different colours. Whilst the offset litho machine forms the basis of any inplant printing unit it will normally be allied to a whole range of ancillary equipment such as cameras for producing the master plates from which the offset litho machines print, composing machines providing a wide variety of type faces and used for preparing the master plates, binding machines where forms need to be provided in sets, collators for assembling these sets in particular order, large guillotines used for cutting the paper to size before printing, or often for cutting the finished product where the forms have been produced more than one up; and also numbering machines and perforating machines.

In the *Malaysian Co-operative Insurance Society* where I come from, we had a manual accounting system which was later developed into a mechanised accounting system. In addition to three embossing machines and four addressograph machines, we used three receipting and analysis machines and three accounting machines to carry out our accounting functions. These were sufficient to enable us to cover the issue of premium notices; receipts; bills; and the preparation of receipts for validating and processing of accounting data. But as our organisation grew into a more complex structure, the maintenance and the processing of these records and their verification began to assume vast proportions. At this stage, the mere provision of extra storage space, extra staff or longer working hours was no longer the efficient solution. My organisation had reached the stage where it was time to switch to a speedier and equally reliable system.

A system that would cater not only for the present needs but will at the same time cope with future expansion. These requirements led us into the field of automation. Being a service organisation, our pattern of development has always been governed by any consideration that contributed towards providing our members, the policyholders, with the most efficient service. With automation, our records, which are presently maintained on ledger cards and policy files, would be transcribed on to a magnetic disc—which is currently one of the quickest methods of recording and retrieving information. This means that we would be equipped to deal with any enquiry by our policyholders no matter how detailed, almost immediately. In addition to this key factor, there are a series of other considerations that favoured our decision to automation.

Once the complete system is on the swing there will occur, on the viewpoint of the office structure, considerable adjustments that will be advantageous to the society in the way of savings. According to our former set-up, the Renewal Department, i.e., the department which issues renewal notices to the various policyholders for the quarterly, half-yearly and yearly amounts due, inclusive of those operating the addressograph and the embossing machines, have a total staff of 30. However, since we commenced implementation of computerisation, a large number of staff have become

redundant. The primary reason being that under our former system the printing of the monthly statements had to be done manually, but under our present system all the processing is done on computer. Consequently, the addressograph and embossing machines which were used to print the monthly statements have become obsolete. As a result of such development, it is now possible to manage the department efficiently with only five to ten staff.

Likewise in the Accounts Department, under the present system the ledger cards are the source documents containing all detailed information of our policyholders and on which accounting entries are made. Twenty staff are employed merely to pick, sort, post and rearrange these ledger cards. Once the information presently stored on these ledger cards is transcribed on to the magnetic disc in the computer, the services of these staff will no longer be needed as there will no longer be the question of manual postings of ledger cards and all accounting will be done on computer.

Another significant outcome of computerisation is the reduction in the excess manual handling that was necessary. Something like over 200,000 manual procedural operations are involved in the preparation of renewal notices. Further, over 3,000 ledger cards are removed from their racks for posting each day. All these manual operations will be done with once the complete information is recorded on the magnetic disc, and thereby bring about a considerable saving in time and staff.

The highlight of computerisation is that with the recording of policyholders' data on magnetic disc we will now be able to take advantage of the speed, accuracy and flexibility of the computer. As a result of this, information can now be quickly and easily retrieved; and as such, it would now be possible to increase the level of service that we have been providing to our policyholders. This fast and efficient data handling system, while increasing our level of customers' service, would simultaneously reduce the work load of our staff for they would no longer need to flounder through loads of files and ledger cards to answer enquiries—for the proposed daily enquiry facility would now equip us to deal with enquiries, that took days and weeks, within 24 hours.

However, at this juncture I would like to stress that it is very important to consider carefully whether your organisation has reached that particular point whereby the only remaining solution to better administration is automation. If a reorganisation of your present system would lead to increased efficiency, then the time to switch to automation is not opportune. The step into computerisation should be taken only after a systems analysis is carried out and it is found that the existing set-up cannot efficiently cope with the present or almost immediate functions and expansions of the organisation. At all stages of the analysis it would be important to consider the various procedures followed.

Each procedure must be traced from beginning to end and the importance of each step must be questioned to see if it is a necessary and useful function or one of those practices that exist by habit. For every so often, procedures which can be done away with are faithfully and consistently followed because of a lack of system review. For an organisation to continue functioning efficiently, regular systems study must be conducted to eliminate unwanted

steps and introduce and enforce new procedures that will increase the performing efficiency of the organisation.

If, after a proper systems analysis, your organisation decides to pursue computerisation, it would be very relevant for management to decide whether they should purchase their own computer unit or carry out data processing through a data processing centre basis, that is to say, using a computer on a time basis, depending on which is more feasible and justifiable to that particular organisation. The criteria involved in making this decision would be the justification of computer usage in relation to the volume of work involved in that particular organisation. In my organisation we have, at the moment, decided to pursue data processing through the data processing centre. However, our direction is towards the purchasing of our own computer in due course of time when the volume of work that can be performed by a computer for us will fully justify the cost of our investment in it.

In conclusion, and following on what I have just mentioned, let me say this—two experts on computers from overseas have recently made statements that the computerisation programme in my country has failed. By having failed, they meant that computers have become burdens in the organisations that have introduced them and not proved to be the magic solutions to problems of inefficiency and cumbersome delays. These two experts who are from Computer Manufacturing Organisations, gave the reasons for failure to untrained personnel and lack of experience in computers. The lesson to be learnt is that in all things new that are of a complex nature haste will cause the biggest waste. A gradual introduction after having laid the ground work is essential. More important still, staff must be trained and prepared for taking over the responsibilities. In my organisation we have to date been introducing the processes step by step, training staff along the way and making very careful studies of our actual requirements before trying to find the suitable systems. All computer companies will assist you in these studies.

So far so good, that's how I would sum our experience, and I believe that the problems besetting the others will not affect us to any great extent because of the ground work done. For this I must thank the *Co-operative Insurance Society*, of Manchester, which has given us extremely useful advice.

MATHEMATICAL MODELS AND FORECASTING: COPING WITH UNCERTAINTY IN FINANCIAL PLANNING

by: Dr. John D. HOGAN, *Nationwide Insurance*

We are gathered here in Warsaw to discuss the world-wide context of insurance and to exchange ideas about insurance management. Few of the problems we face are unique to our individual countries. Premium growth, costs of operation, loss frequency, loss costs, investment strategies and tax burdens are common problems to all of us and we have something to say to each other about them. Fortunately, the pace of discovery and experimentation has been rapid during the last decade with the consequence that new approaches to old problems have been sought by companies in all countries.

This Paper is principally concerned with planning in the casualty insurance business, especially automobile insurance. The experience on which the Paper is based is to a large degree *Nationwide Mutual Insurance Company* of Columbus, Ohio, U.S.A. However, the author has not hesitated to bring into the discussion his own experience prior to association with the *Nationwide Companies* and the experience of other insurance companies where sufficient detail was available to him to permit reliable description.

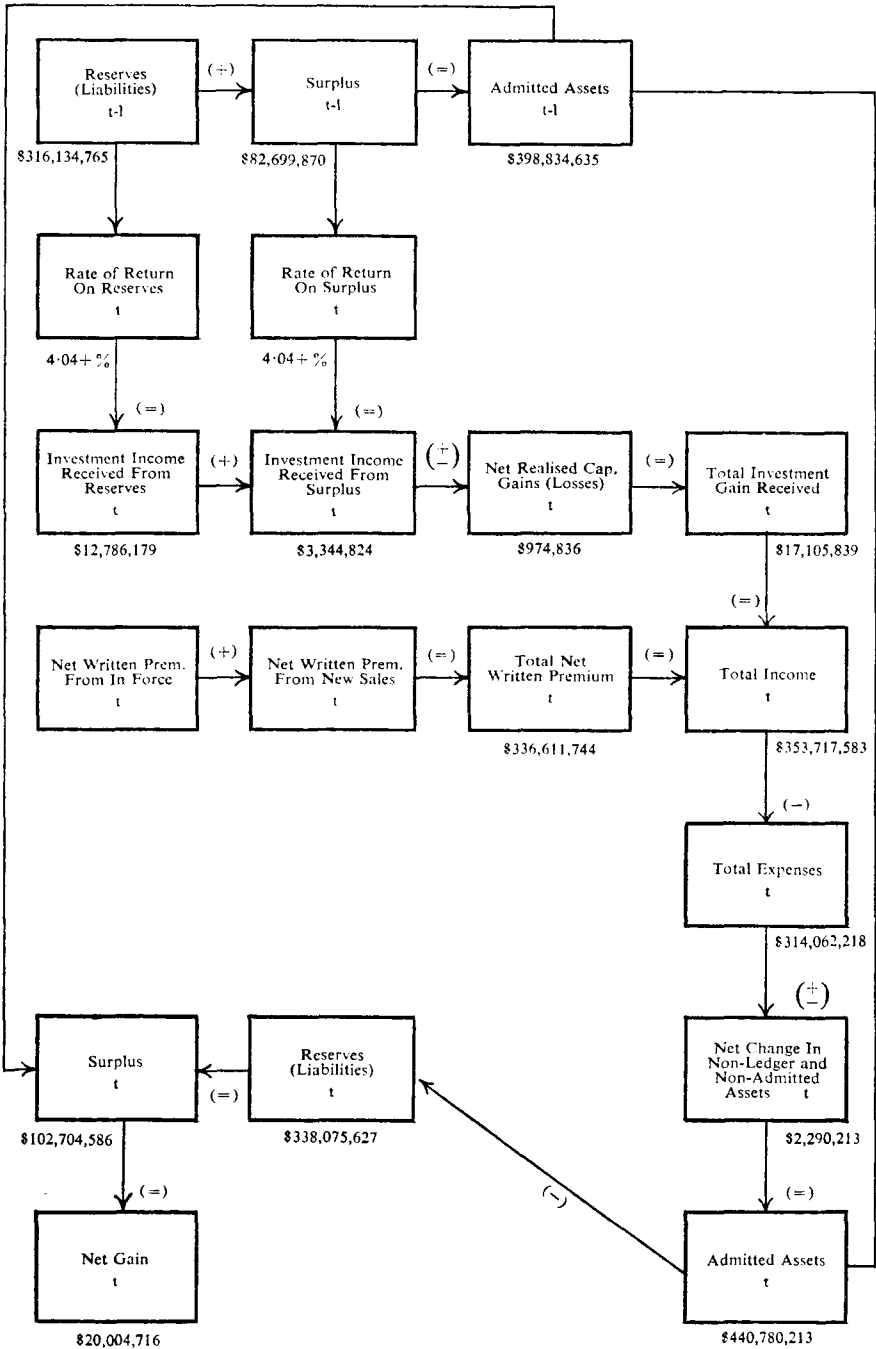
The plan of the Paper is to discuss in turn casualty insurance management, models, insurance models, information systems, planning, and simulation. Technical discussion has been kept to a minimum in the main body of the Paper, but a few technical appendices and references are included as an aid where they were deemed useful to technical understanding.

CASUALTY INSURANCE MANAGEMENT

The casualty insurance management problem is to commit resources of labor, capital and entrepreneurial skill on behalf of policyholders who seek protection of their income and assets from a wide range of probable but uncertain contingencies. To pool risks and spread them among an insurable population has required us to develop concepts of great ingenuity. These concepts range from the definition of an insurable interest to the determination of loss expectation from multiple perils. We have accounted for the operations of our companies with modifications of the balance sheet and profit and loss statement (gain exhibit). For a casualty company the gain statement would be presented in flow chart terms as shown in figure I.

Revenue is derived from "new" and "inforce" premium plus investment income. Total revenue less expenses and benefit payments equals addition to assets, and addition to assets less reserves equals surplus. The change in surplus over an accounting period is net gain. This statement indicates to insurance management and its regulators how efficient the loss-pooling process has been for a given accounting period. The amount of net gain and its ratio to premium income not infrequently contains an element of surprise for management. This is due to the uncertainties that underlie the processes at work in an insurance company undertaking. Unfortunately, the uncertain-

Figure I
FLOW OF FUNDS
MUTUAL CASUALTY—FIRE INSURANCE COMPANY



ties usually cannot be removed although some modern analytical tools provide the means to help manage an insurance process under conditions of uncertainty.

The key to most undertakings that seek better means to manage a process is, of course, the electronic computer. Insurance enterprises are, however, much more accustomed to think of computers as means to reduce clerical expense by automating such operations as billing and collection, payroll and management reports. In many companies installed computer capacity is now far in excess of the amount required for mundane accounting tasks and the opportunity exists for the computer to serve management decision making directly.^{1/} Figure II identifies the conventional uses of computers as “house-keeping uses” and the new, promising uses as “opportunity uses.” It is to these latter uses that we now turn.

MANAGEMENT SCIENCE AND INSURANCE MANAGEMENT

“Management science” as a label identifying analytical techniques useful in managing enterprise contains, in some managers’ views, an implicit contradiction: the management process is in its most important aspect an art, the process of organising and motivating people to achieve objectives. It is a quality that varies by the style in which it is successfully practiced and is suffused with skill in human relations. In fact, nothing in the management science concept contradicts or abridges the human relations dimension of management. The use of management science techniques may improve the decision process in an enterprise by promoting substitution of rational for intuitive judgment. Only if one maintains that management decisions should be entirely intuitive would management science be a threat to management processes. The most promising developments in decision theory during the last decade have been those that *combine* intuitive and scientific inputs to the decision process.

To argue that there is no inherent threat to management processes from management science is not to deny that the practice of management science can be promoted in such a clumsy way as to upset management processes.^{2/} New concepts can be threatening to practitioners of conventional management processes in the same way that any change can be threatening. Management of change in such a style as to minimise conflict and disturbance of management processes is a major challenge in any enterprise. The same

1/ Core capacity and internal speed limitations restricted uses of computer systems to automation of clerical-type activities until the late 1960's. During the 1960's and, it is expected, during the 1970's internal computer speed has doubled every year on average. Core capacity has ceased to be the constraint it once was because of increased size of core and electronics technology that shares and distributes core more efficiently. The constraints faced in large computer installations today are in peripheral equipment—the input-output facilities.

2/ An extensive literature has developed on management by system and means to reorient management to use the computer to assist decision-making. See, for example, Herbert Simon, *The New Science of Management Decision* (New York: Harper and Row, 1960); R. L. Ackoff and P. Rivett, *A Manager's Guide to Operations Research* (New York: John Wiley and Sons, 1963); Warren G. Bennis, et. al., *The Planning of Change* (New York: Holt, Rinehart and Winston, 1961); and John S. Morgan, *Managing Change* (New York: McGraw-Hill, 1972).

Figure II

COMPUTER APPLICATIONS

Housekeeping Applications.

Billing policyholders.

Payroll.

Accounting reports.

Opportunity Applications.

Management information.

Simulation of possible strategies.

Management training.

techniques that are successful in general use—candid and explicit explanation of the rationale for change; skilful human relations management to minimise threat to participants, maintaining two-way communication with those effected, etc.,—are equally applicable in promoting management science techniques. The encouraging indication is that enterprises in many different lines of endeavour have successfully introduced management science into their decision processes.

Insurance enterprises were among the very first large scale users of computers. The objective sought was reduced cost of operations by increasing the speed and accuracy of previously manual operations. But insurance enterprises were among the last users of computers to refine information for decision purposes and to assist decision processes.

MANAGEMENT SCIENCE TECHNIQUES

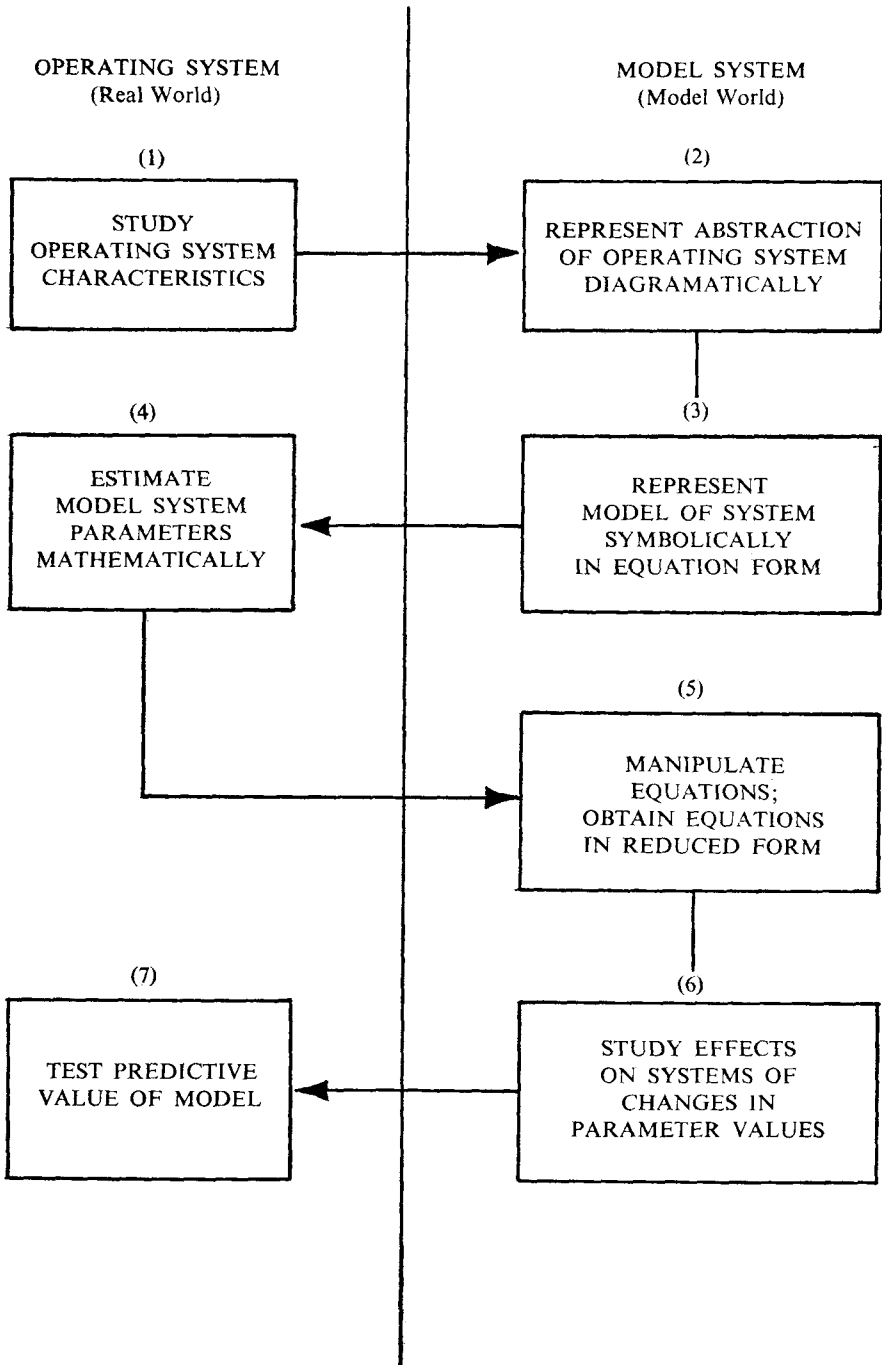
The range of management science techniques is very broad. A Paper presented by the author in 1965 identified eight different categories of techniques in use in insurance enterprises and the techniques within the categories were divisible into further categories.^{3/} The characteristic common to all management science techniques is the “ model ” of a system or process. Synonyms for “ model ” are abstraction and simplification. All but the most simple systems are composed of a bewildering number of interacting elements. To be understood the system must be simplified by selecting the chief elements (variables) and their relationships for study. The indicator of a good model is selection of the minimum number of elements and relationships that provide for the faithful representation of the system.

The Modeling Technique

Models are produced by a trial and error procedure. A first step may be construction of a flow diagram of the form illustrated in figure I. Successive steps in the procedure are shown in figure III. The terms “ operating ” system and “ model ” system refer respectively to the complicated, real-world system and the simplified abstraction that the model represents of the “ real world.” Note that the procedure begins with study of the operating characteristics in the real world and then proceeds to a simplified representation of the system in a flow diagram. Next the model system is represented in terms of symbols depicted in equation form. From the real world, values for the symbols are estimated mathematically then manipulated to take a form that permits an experiment to be undertaken, such as changing the value of a variable. The consequence of the model system change is then evaluated in the real world of the operating system. If evaluation of the results of the experiment have questionable validity, the faults are suspected in the model's values or relationships, the steps (1) through (6) must be retraced.

^{3/} John D. Hogan, “ Management Science Applications in the American Insurance Industry,” 3^e Semaine Electronique Internationale de l'Assurance, Comite d'Action pour la Productivité dans l'Assurance, Paris, 1965.

Figure III



An Illustration

An insurance illustration will help clarify how the procedure unfolds. Assume the problem to be generation of premium income for an auto insurance company. The operating characteristics of the system imply that premium income (millions of dollars) depends upon the in-force vehicles (millions of vehicles), new automobile sales (in millions of vehicles), scrappage of automobiles (in millions of vehicles), disposable personal income growth rate (per cent) and other factors subsumed in the term trend (millions of dollars). These factors are symbolised as P_t (premium income), IF_{t-1} (inforce vehicles last year), A_t (automobile sales), Sc_{t-1} (vehicles scrapped last year), $Y_{d_t}^r$ (rate of growth in disposable income), and T (trend). The relationship is:

$$P_t = T + b_1 (IF_{t-1}) + b_2 (A_t) - b_3 (Sc_{t-1}) + b_4 (Y_{d_t}^r).$$

Values are estimated for the coefficients and the relationship becomes:

$$P_t = 25 + 104 (IF_{t-1}) + 1.08 (A_t) - .416 (Sc_{t-1}) + 16.6 (Y_{d_t}^r)$$

Since scrappage reduced the inforce vehicle count, the equation can be simplified to:

$$P_t = 25 + 103.58 (IF_{t-1} - Sc_{t-1}) + .02 (A_t) + 16.6 (Y_{d_t}^r)$$

Solving the equation yields an estimate for premium in year "t" of \$895 millions. Assume this is a reasonable estimate. Next an experiment is performed; the growth rate of disposable income is reduced one per cent. The consequence is reduction of premium by \$20 millions. An evaluation indicates this to be a low response of premium income to change in disposable income based upon past experience. Therefore, the steps (1) through (6) are repeated in an effort to obtain an estimating equation more accurate in terms of past experience.

Real World

Insurance systems are, of course, much more complex than the illustration. The number of factors and relationships to be taken into consideration in building a model may be counted in the thousands. A system with twenty interacting variables would give rise to a potential 20 or 2.43×10^{18} relationships. This complexity makes obvious the degree of difficulty involved in modelling a real world operating system.

INFORMATION SYSTEMS

Insurance enterprises have from time immemorial depended upon data to assess the expectation of loss. Loss expectation and an interest rate assumption underlie the life insurance tables. Composition of exposure to risk among automobile drivers in a given area gives rise to a table of automobile insurance rates. Actuarial calculations of data are thus seen to be the very basis for existence of an insurance service.

Beyond the development of data necessary to provide the service, however, insurance enterprises have not committed large amounts of resources to

information processing. An exception in the United States has been information reported to regulatory agencies, the fifty-one State jurisdictions. This latter information has had relatively little value for management purposes—although in most companies it has been used for that purpose anyway—because the objective of regulatory reporting has been to guard against insolvency, the shrinkage of assets such that they fail to cover liabilities. Solvency is an important objective in an insurance enterprise; but so are liquidity; growth; profitability; diversification of risk, etc., for which information reported to regulatory agencies has little management value. The importance of relevant, timely and accurate information in the modelling process cannot be overestimated. Merely to discover which important relationships must be incorporated in a model requires carefully specified data resources. The problem is not unique to insurance, however, and a large proportion of the developments in modern statistical theory is directed to the problem of efficient estimation under constraint of inadequate or incomplete data.^{4/}

Inadequacy of appropriate information resources in large insurance enterprises should not be charged to callous neglect. The necessary prerequisites to provision of information are (1) identification of the information to be captured and (2) processing capability to capture it. The first prerequisite is a theoretical requirement (which of all possible information should be captured and which ignored if decision-making is to be best served) and the second is a mechanical problem of processing capability. With respect to this latter problem, figure IV depicts the relationship between data and information. Of the infinitely large data possibilities that exist, the smaller number of possibilities capturable and processable there finally emerges the infinitesimally small set of information essential to decision-making. This essential quantity is still in large degree shrouded in doubt. The basic research necessary to establish data requirements and data relationships has in many areas not been done.^{5/}

PLANNING

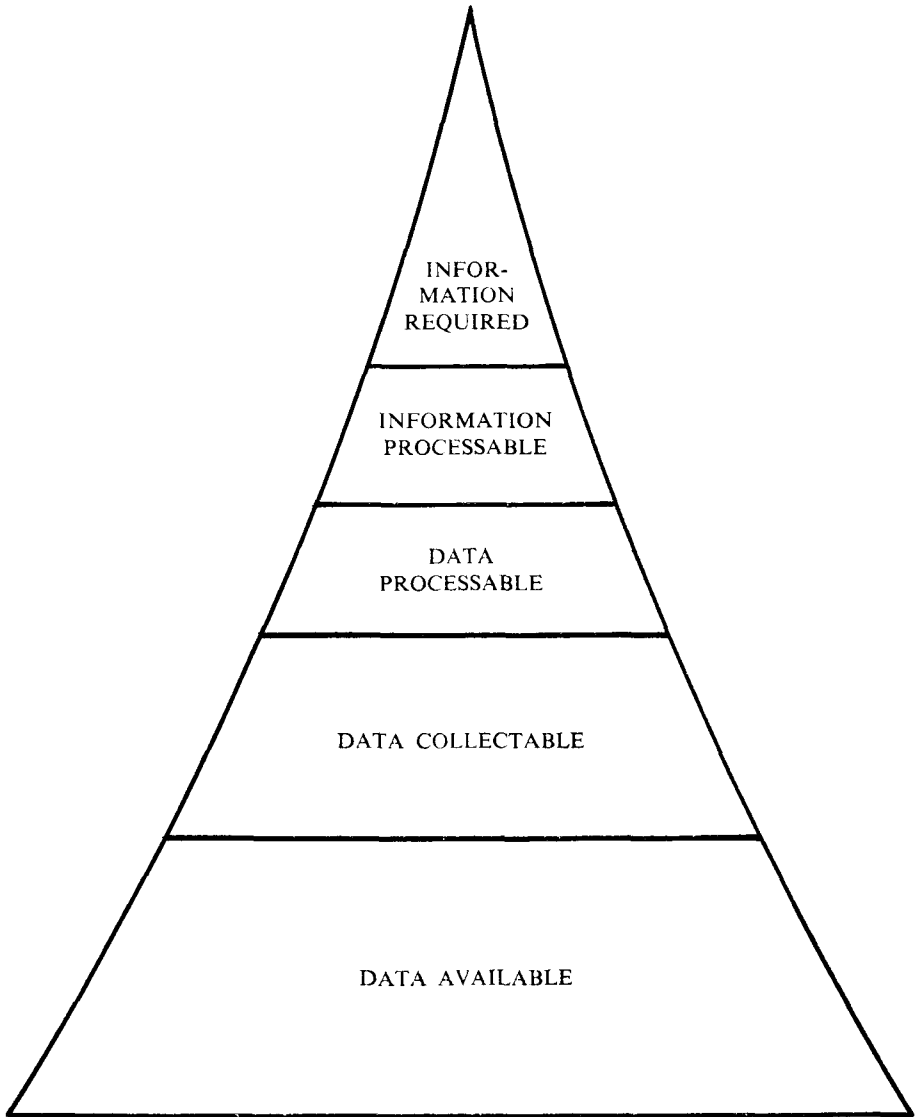
The role of planning in the management process is often viewed as an exercise in framing expectations about the future. References abound in management literature to the necessity for planning ahead in order to avoid being mired in the present. This concept of planning has given way to a concept that concentrates on the present. Planning by this concept endeavours

4/ A group of techniques classified generally under the phrase "Bayesian" are illustrative of this development. One of the more lucid descriptions is contained in Henri Theile *Optimal Decision Rules for Government and Industry* (New York: Elsevier Publishing Co., 1968).

5/ The typical response of chief executives to the question; What information do they need to make decisions? is either a declaration that they must have all the information obtainable (because they are responsible for the whole, unsegmented operation) or an insistence that some information unobtainable on demand at some recent decision point never again be unobtainable. It is doubtful that a theory specifying—a priori—the information required to make a complex management decision will ever be developed—because the interplay of information and intuition is so subtle and inseparable. Much more information relevant to management decision-making is desired and can be provided than at present in most enterprises.

Figure IV

DATA AND INFORMATION



MANAGEMENT INFORMATION

to estimate the futurity of present management policies, to estimate the future consequences of action taken now.^{6/}

A concept of planning oriented to the present emphasises processes at work in the present. It inquires into the consequences of management action in a way that more future-oriented concepts do not. It gives rise to compelling questions about the *nature* of the insurance management system as opposed to its *state*. The “nature” of a system is analogous to a moving picture; the “state of a system” is analogous to a snapshot. More important, the nature of a system can only be probed and understood through use of a formal model. The state of a system can, to a limited degree, be understood by reference to conventional, static accounting reports.

The Corporate Insurance Model

The model of greatest interest to insurance management is the model of corporate financial flows. It generates a set of conventional financial projections based upon assumptions about the future and the behaviour over time of the processes at work in the company system.^{7/}

One use of a corporate model is illustrated in figure V. Future assumptions about controllable elements (e.g., rate of premium growth, expense levels, etc.) and uncontrollable elements (inflation rate, regulatory requirements, etc.) are tested in the context of the company's base data to produce financial statements reflecting different futures. Regardless of the use to which the model is put, it must contain structural relationships through which the process works. A simple chain of these relationships is illustrated in figure VI.

SIMULATION

Simulation is the advanced application in management science. If a corporate model of adequate quality is available, simulation permits answers to many questions that begin, what if? . . . interest rates on new money available for investment increase two percentage points during the next five years, will the change in assets be sensitive to a slowdown in cash flow resulting from rapid agency growth? What if repair costs continue to rise at five per cent per year and claims frequency varies with the level of gross national product, will premium rates be forced to rise more than five per cent?

Simulation models can be developed for small systems and large, for processes in which the probabilities of future events are known and in which they are

^{6/} See Peter F. Drucker, “Long Range Planning: Challenge to Management Science,” *Management Science*, III, pp 238-249.

^{7/} Detailed reports of a corporate model and a field system model are provided in the following articles by the author: John D. Hogan, “The Use of Operations Research in Field Planning,” *Proceedings of the I.B.M. Symposium on Operations Research in Insurance* (Los Angeles: I.B.M., 1966) pp 29-74; and John D. Hogan, “A Corporate Model for Insurance Planning,” *Proceedings, Symposium on Operations Research in the Insurance Industry* (New York: I.B.M., 1967).

Figure V

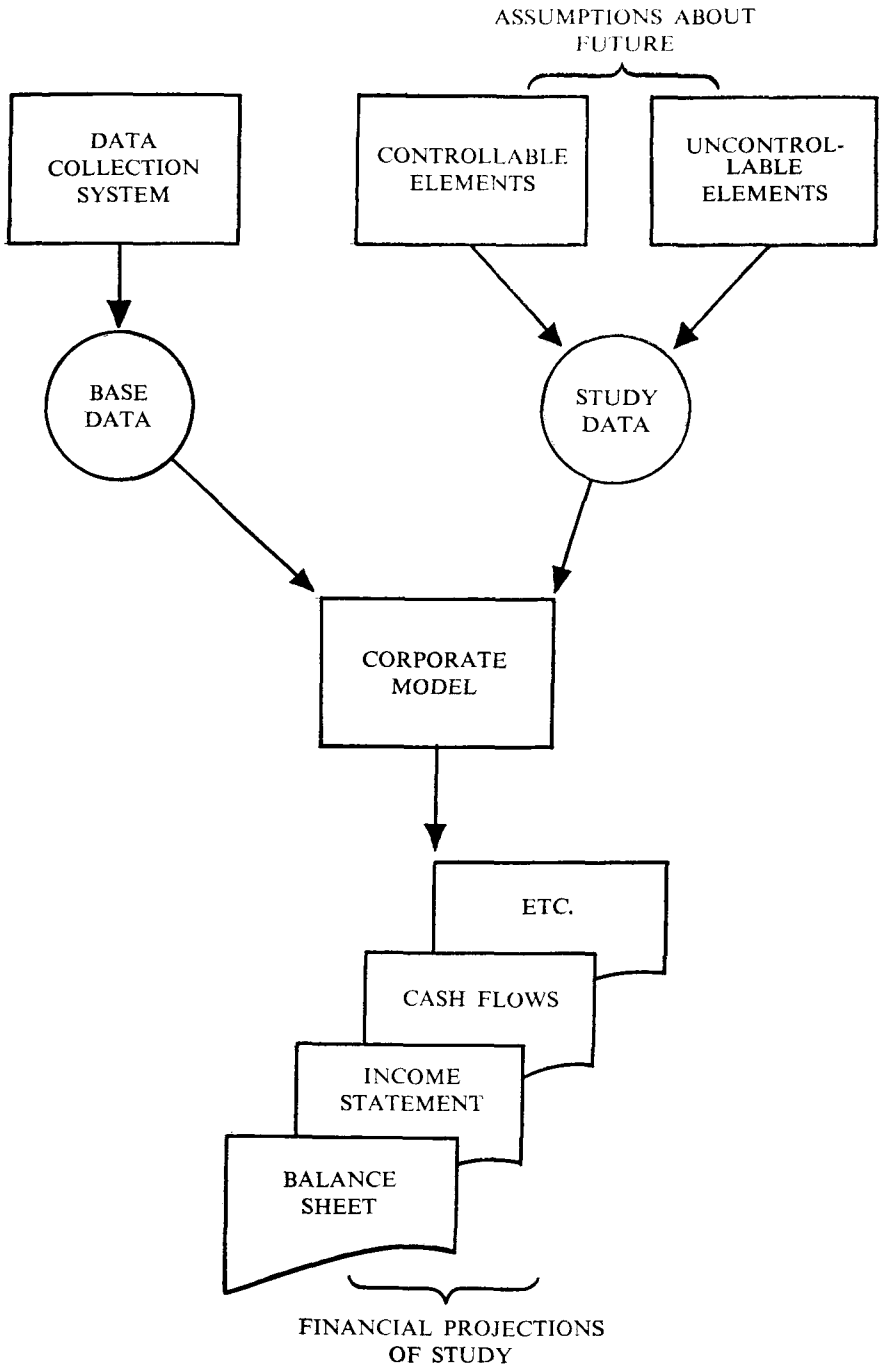




Figure VI

$$\text{PREMIUM INCOME} - \text{CLAIMS} - \text{EXPENSES} = \text{GAIN}$$


$$\text{PREMIUM INCOME} = \text{NUMBER POLICIES} \times \text{AVERAGE PREMIUM}$$


$$\text{NUMBER POLICIES} = \text{NEW WRITINGS} + \text{IN-FORCE}$$


$$\text{NEW WRITINGS} = \text{NUMBER AGENTS} \times \text{AVERAGE PRODUCTIVITY}$$


$$\text{NUMBER AGENTS} = \text{AGENTS PREVIOUS PERIOD} + \text{RECRUITS} - \text{AGENTS CANCELLED}$$



not (but the distribution of probabilities is known). These models come as close to experimental situations associated with the physical sciences as human behavioral limitations permit.

THE NATIONWIDE CORPORATE GROWTH MODEL

Much of the foregoing discussion can be summarised and illustrated by the *Nationwide Insurance Company's* Corporate model. The model is a set of logical expressions and relationships that replicate the important operating characteristics of the property and casualty insurance operation. Figure VII gives the major operations of the model.

On the basis of known characteristics of the agent force (chiefly age, length of tenure and previous production) new automobile business is written, the inforce business persisted one year, premium is collected, and claims are incurred by coverage and term of business. Homeowners business is similarly written, persisted, etc. This process continues for as many six-month cycles as desired. When the last six-month cycle is completed, expenses are calculated and operating results computed in terms of losses, expenses and gain and ratios to earned premium.

The characteristics of the model logic flow indicate the complexity of relationships required to represent the real world process. Agent survival and production are related to type of agent (N.A.D.P.—salaried agents; or I.C.—independent contractor) and length of service. Losses are related to coverage and term of insurance. Expense items are computed in three general categories: unit expenses, percentage rate expenses and fixed expenses. The model runs in cycles of six months and all premiums written during the cycle are earned and all claims incurred during the cycle are paid. Figure VIII illustrates the general information input to the model and figure IX the information work sheets used to prepare information input.

The model is disaggregated to the sales district level of which there are 374 and can be operated to simulate the effects of changes in operating strategies for a sales district, a region (of which there are thirteen) and the company aggregate.

Corporate Model Output

The output of the model can be varied depending upon the application employed. In general the output is presented under the following headings:

1. CY=cycle (generally 6 month intervals).
2. TOTAGT=total agents.
3. PIF=policies inforce.
4. LR=loss ratio.
5. ER=expense ratio.
6. GR=gain ratio.

Figure VII
 NATIONWIDE "GROWTH" MODEL

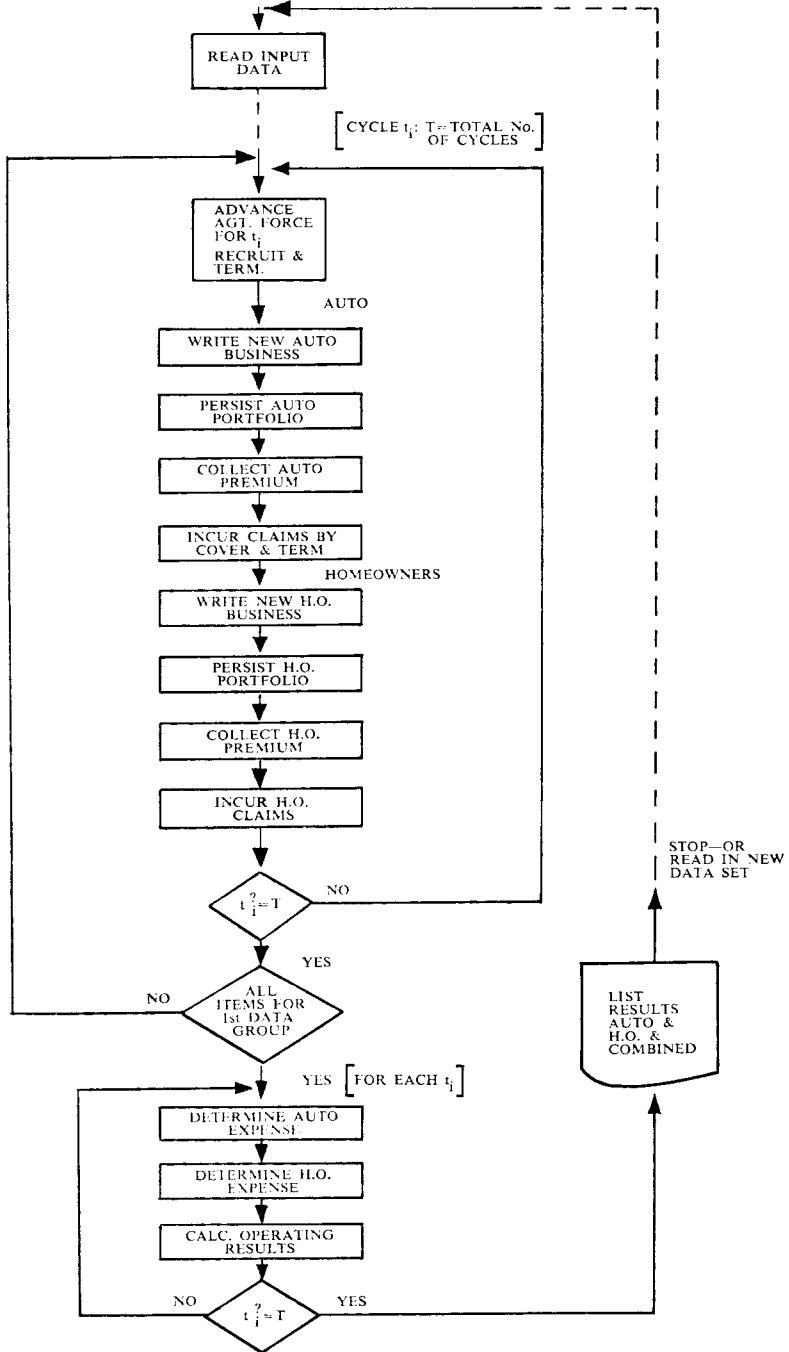


Figure VIII

GROWTH MODEL: INPUT DATA (COMPANYWIDE) (REGION) (STATE)

I. Agent Information

1. Number of agents, by length of service.
2. Average agent attrition by length of service.
3. Average personal auto policy production per agent (by length of service) for each cycle (accepted policies).
4. Average homeowners policy production per agent (by length of service) per cycle (accepted policies).
5. N.A.D.P. cost (net) for personal auto lines for each cycle.
6. N.A.D.P. cost (net) for homeowners lines for each cycle.
7. Number of agents to be added each cycle.

II. Homeowners Information

1. Number of policies in force by term.
2. Average cancellation rate, by policy term.
3. Average premium, by policy term.
4. Average claim frequency.
5. Average incurred cost for claims.
6. Tax rate applied to premium as a % of premium.
7. Renewal expense as dollars/policy.
8. Overhead allocation—as a fixed amount.
9. Average expense per claim.
10. Commission rate as a % of premium by term of policy.
11. New business cost as dollars/new policy.
12. Cancellation cost as dollars/cancellation.
13. Changes cost as dollars/change.
14. % of policies which undergo changes.
15. Sales management expense.

III. Personal Auto Information

1. Number of policies in force by term.
2. Average cancellation rate by term.
3. % of B.I. exposure by coverage by policy term.
4. Claims frequency by coverage by policy term.
5. Average incurred cost by coverage by policy term.
6. Average premium.
7. Tax rate as % of premium.
8. Renewal cost as dollars/policy.
9. Commission rate as % of premium.
10. Overhead allocation—a fixed amount.
11. Average claims expense.
12. New business cost as dollars/new policy.
13. New business commission as dollars/new policy.
14. Cancellation cost as dollars/cancellation.
15. Change cost as dollars/change.
16. % of policies in force which undergo changes.
17. Sales management expense.

Figure IX

INFORMATION WORK SHEETS

1-2

I. AGENT INFORMATION (by length of service).

AGENTS:	LENGTH OF SERVICE (YEARS SINCE LICENSING)						
	1	2	3	4	5	6	7+
1. Member—N.A.D.P. I.C.							
2. Attrition—N.A.D.P. I.C.							
3. Conversion to I.C.							
4. Auto prod.—N.A.D.P. I.C.							
5. H.O. prod.—N.A.D.P. I.C.							

II. INFORMATION (by term)

AUTO.	POLICY TERM (6 MOS.)						
	1	2	3	4	5	6	7+
1. Relativities—in-force							
2. Relativities—cancel.							
3. Relativities—freq.							
4. Relativities—A.I.C.							
H.O.:							
1. Relativities—in-force							
2. Cancellation rate							
3. Premium							

2-2

III. AUTO INFORMATION (by coverage)

	AUTO COVERAGE					
	B.I.	P.D.	COMP.	COLL.	H.D.	OTHERS (if any)
1. % B.I. exposure						
2. Auto frequency						
3. Auto A.I.C.						
4. Auto premium						

IV. SINGLE DATA ITEMS

- 1. Auto in-force for N.A.D.P.
- 2. Auto in-force for I.C.
- 3. Auto cancellation rate
- 4. H.O. policies in-force
- 5. H.O. frequency
- 6. H.O. A.I.C.

(EXPENSE DATA)

- Auto
- 1. Premium tax rate (%)
 - 2. Pol. renewal expense (\$/pol.)
 - 3. Commission rate (%)
 - 4. Overhead (\$)
 - 5. Claims expense (\$/Claim)
 - 6. New business exp. (\$/new pol.)
 - 7. New Policy commission (\$/new pol.)
 - 8. Cancell. expenses (\$/cancell.)
 - 9. Change expense (\$/change)
 - 10. Change factor (% in-force)
 - 11. Sales management (\$)
 - 12. N.A.D.P. expenses (\$/N.A.D.P. agt.)

H.O.

- 1. Premium tax rate (%).
- 2. Policy renewal expense (\$/renew.)
- 3. Overhead (\$)
- 4. Claims expense (\$/Claim)
- 5. New commission rate (%)
- 6. Renewal commission rate (%)
- 7. New policy expense (\$/new pol.)
- 8. Cancellation expense (\$/can.)
- 9. Change expense (\$/change)
- 10. Change factor (% in-force)
- 11. Sales management (\$)
- 12. N.A.D.P. expense (\$/N.A.D.P. agt.)

V. FOR EACH YEAR OF SIMULATION—input recruiting Plan

- 1. N.A.D.P. agents licensed.
- 2. I.C. agents licensed.

7. Costs: (as presently defined).
 - a. SALESMT—sales management=sales management + D.S.M. overwrite.
 - b. OPER.=operating=renewal expense + claim expense + new business cost + cancellation cost + changes expense.
 - c. COMM.=commissions=renewal commission + new business commission + N.A.D.P. expense.
 - d. OTHER=premium tax + overhead.

A common application of the model is to compute a base output for some specified time period into the future, then simulate the effect of a change in some operating characteristic such as recruitment for the same period. Comparison of the two output data sheets indicates the effect of a change in production upon the principal financial results of the operating unit. Figure X gives the main output headings for a base projection. Premium increases from \$380 million for the first year (two cycles) to \$425 million in the fifth year. The gain ratio declines from 12.5 per cent to 11.0 per cent over the same period.

Figure XI illustrates the effect of a given per cent increase in premium production over the five-year period. Premium increases to \$476 million in the fifth year and the gain ratio declines to 8.8 per cent. Further simulation experiments might indicate how the gain ratio could be maintained despite growth, for example by reduced expense or improved persistency.

Uses of the Model

The model has been applied to problems at every level of the company over the last several years. It is the principal formal tool used to project regional operating results and plan changes in regional operating strategy. In this application the model provides an estimate of the consequences that would result from a policy change. The only alternative to determine the effects of a policy change is to make the change and live through the consequences, an option that can be very unattractive.

Two years ago the *Nationwide* companies came into a period of poor operating results. The gain ratio deteriorated to a loss of 2.2 per cent in relation to earned premium. The automobile and homeowner's lines were involved. With the aid of the model the basic problem was diagnosed to be an excessive growth rate; inadequate underwriting standards; and an industry-wide phenomenon of rapidly-rising frequency of loss and cost of loss. Nearly one hundred simulation experiments with the model were conducted in close consultation with the Company Executive staff. After full discussion, a strategy was devised that would produce a 4.5 per cent operating gain within eighteen months. The strategy involved a rate increase, increased underwriting standards, a moratorium on new policies for a period of six months, and policies to increase persistency one percentage point. The turnaround of Company results was accepted by the Executive staff with reservations that it was optimistic. Actual results for the eighteen-month period revealed a turnaround to 5.5 per cent not including a programme of reserve

Figure X

BASE PROJECTION

**PERSONAL AUTO
Operating Results**

CY	TOTAGT	P.I.F. (000)	Premium (000)	Losses (000)	Expenses (000)	L.R.	E.R.	G.R.
1	4227	2,670	190,000	112,000	54,100	59.0	28.5	12.5
2	4227	2,680	191,000	113,000	54,400	59.0	28.5	12.5
Year 1	4227	2,680	381,000	225,000	108,500	59.0	28.5	12.5
3	4280	2,710	193,000	115,000	55,000	59.4	28.5	12.2
4	4280	2,740	195,000	116,000	55,600	59.5	28.5	12.0
Year 2	4280	2,740	388,000	231,000	110,600	59.5	28.5	12.2
5	4339	2,780	198,000	118,000	56,500	59.8	28.5	11.7
6	4339	2,820	201,000	120,000	57,300	59.8	28.5	11.6
Year 3	4339	2,820	399,000	238,000	113,800	59.8	28.5	11.7
7	4395	2,870	204,000	123,000	58,000	60.1	28.5	11.3
8	4395	2,910	207,000	125,000	59,200	60.2	28.5	11.2
Year 4	4395	2,910	411,000	248,000	117,500	60.2	28.5	11.3
9	4480	2,960	211,000	128,000	60,200	60.5	28.5	11.0
10	4480	3,010	214,000	130,000	61,200	60.5	28.5	10.9
Year 5	4480	3,010	425,000	258,000	121,400	60.5	28.5	11.0

Expense Breakdown

CY	Net Gain (000)	Oper*	N.A.D.P. (000)	Ren. Comm. (000)	New. Comm. (000)	Other (000)
1	23,740	.....	15,820	2,028	34,280	3,987
2	23,810	.....	15,910	2,028	34,480	4,009
Year 1	47,550	.....	31,730	4,056	68,760	7,996
3	23,480	.....	16,000	2,182	34,960	4,056
4	23,500	.....	16,190	2,182	35,340	4,098
Year 2	46,980	.....	32,190	4,364	70,300	8,154
5	23,270	.....	16,350	2,333	35,960	4,161
6	23,400	.....	16,600	2,333	36,460	4,218
Year 3	46,670	.....	32,950	4,666	72,420	8,379
7	23,130	.....	16,820	2,447	37,150	4,289
8	23,230	.....	17,100	2,447	37,720	4,353
Year 4	46,360	.....	33,920	4,894	74,870	8,642
9	23,140	.....	17,360	2,566	38,460	4,431
10	23,380	.....	17,660	2,566	39,080	4,503
Year 5	46,520	.....	35,020	5,132	77,540	8,934

* Not used in this analysis.

Figure XI

**SIMULATION OF 25% INCREASE IN PRODUCTION
FOLLOWING THE FIRST YEAR**

PERSONAL AUTO

Operating Results

CY	TOTAGT	P.I.F. (000)	Premium (000)	Losses (000)	Expenses (000)	L.R.	E.R.	G.R.
1	4227	2,670	190,000	112,000	54,100	59.0	28.5	12.5
2	4227	2,680	191,000	113,000	54,400	59.0	28.5	12.5
Year 1	4227	2,680	381,000	225,000	108,500	59.0	28.5	12.5
3	4280	2,770	197,000	120,000	56,200	60.5	28.5	11.0
4	4280	2,850	203,000	124,000	58,000	61.1	28.6	10.3
Year 2	4280	2,850	400,000	244,000	114,200	61.0	28.6	10.4
5	4339	2,950	210,000	130,000	60,000	61.8	28.6	9.6
6	4339	3,030	216,000	134,000	61,800	62.0	28.6	9.4
Year 3	4339	3,030	426,000	264,000	121,800	62.0	28.6	9.4
7	4395	3,120	222,000	139,000	63,700	62.4	28.7	8.9
8	4395	3,210	228,000	143,000	65,500	62.5	28.7	8.8
Year 4	4395	3,210	450,000	282,000	129,200	62.6	28.7	8.8
9	4480	3,300	235,000	147,000	67,400	62.6	28.7	8.7
10	4480	3,390	241,000	151,000	69,100	62.4	28.7	8.9
Year 5	4480	3,390	476,000	298,000	136,500	62.6	28.7	8.8

Expense Breakdown

CY	Net Gain (000)	Oper*	N.A.D.P. (000)	Ren. Comm. (000)	New Comm. (000)	Other (000)
1	23,740	.....	15,820	2,028	34,280	3,987
2	23,810	.....	15,910	2,028	34,480	4,009
Year 1	47,550	.....	31,730	4,056	68,760	7,996
3	21,730	.....	16,000	2,728	36,060	4,147
4	20,950	.....	16,520	2,728	37,210	4,266
Year 2	42,680	.....	32,520	5,456	73,270	8,413
5	20,150	.....	16,990	2,916	38,560	4,405
6	20,240	.....	17,530	2,916	39,690	4,531
Year 3	40,390	.....	34,520	5,832	78,250	8,936
7	19,850	.....	18,030	3,058	41,000	4,669
8	20,070	.....	18,570	3,058	42,110	4,794
Year 4	39,920	.....	36,600	6,116	83,110	9,463
9	20,550	.....	19,080	3,208	43,360	4,935
10	21,400	.....	19,630	3,208	44,450	5,064
Year 5	41,950	.....	38,710	6,416	87,810	9,999

* Not used in this analysis.

strengthening. Subsequent study of the actual recovery path of operating results compared with simulated estimates revealed that the variance of nearly two percentage points could be traced to a decrease in frequency by coverage. The model could have simulated this effect, but there was no indication at the time alternative strategies were being considered that frequency would reverse its trend and decline.

Other Applications of the Model

One of the problems that prompted the presentation of this paper is planning of rates and changes in rates in anticipation of such events as a sudden shift in labour charges for repair or a change in loss frequencies among coverages. Investigations in this area have disclosed no reliable means to overcome the uncertainties inherent in these events. Prediction of frequency changes and where they will occur is not possible in the present state of the art with the accuracy rate-determination requires. A model of the sort described above does have the capability of estimating the effects upon operating results of any hypothetical change in frequency or loss cost. The manager is then forewarned at least of a change that might occur.

The basic logic of the loss cost module in the *Nationwide* Corporate model is given in figure XII. Technical notes are included with the flow diagram. In general terms, frequency and incurred cost are applied to the number of claims by term and coverage to determine loss cost. The output gives loss cost by term and coverage. Figure XIII illustrates the base projection of loss costs compared with simulated loss costs resulting from a ten per cent increase in medical services cost. On the basis of the model output, an increase in loss costs of \$3.5 millions per year would result, or \$14 millions over two years (four cycles). The same logic would permit simulation of increased wage rates in repair shops or similar possible events affecting loss costs.

Other Types of Models ^{8/}

An extensive variety of models could be used to describe a company system, but one representation—a control model—is potentially so useful that an illustration is presented here. Control models are most useful as representations of adaptive, or self-regulating, systems. A sensor receives signals from a system in an operation analogous to a thermostat receiving signals from a series-connected thermometer. If the sensor receives information that the desired value of a parameter (in the thermometer control system the temperature setting) is not being maintained, operations are conducted within the model to change certain parameters such that the desired value is restored (in the thermometer control system, the heating apparatus is turned on until the desired temperature setting is restored). The construction of an adaptive control system is a demanding task; but a simple insurance company example will illustrate the principles involved.

^{8/} The model described here has previously been published: John D. Hogan, "A Corporate Model for Insurance Planning," *Proceedings, Symposium on Operations Research in the Insurance Industry* (New York: I.B.M., 1967), pp 71-74.

Figure XII

**LOSS COST MODULE
BASIC LOGIC**

tth Model cycle

i = 1, 2, ..., C Coverages

j = 1, 2, ..., J Terms

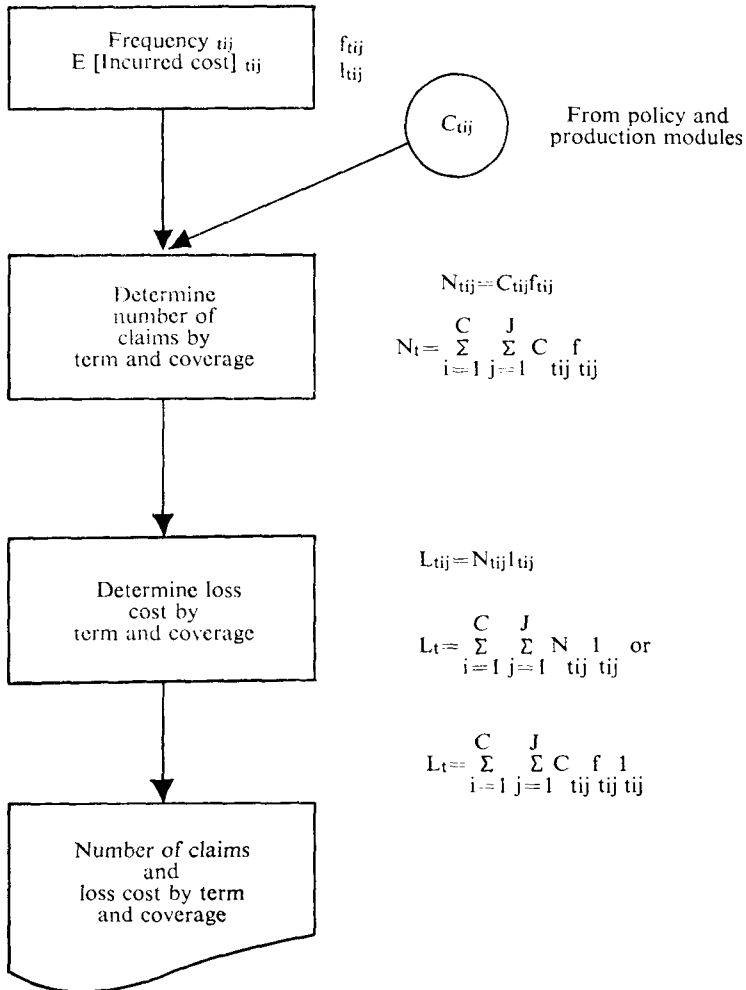
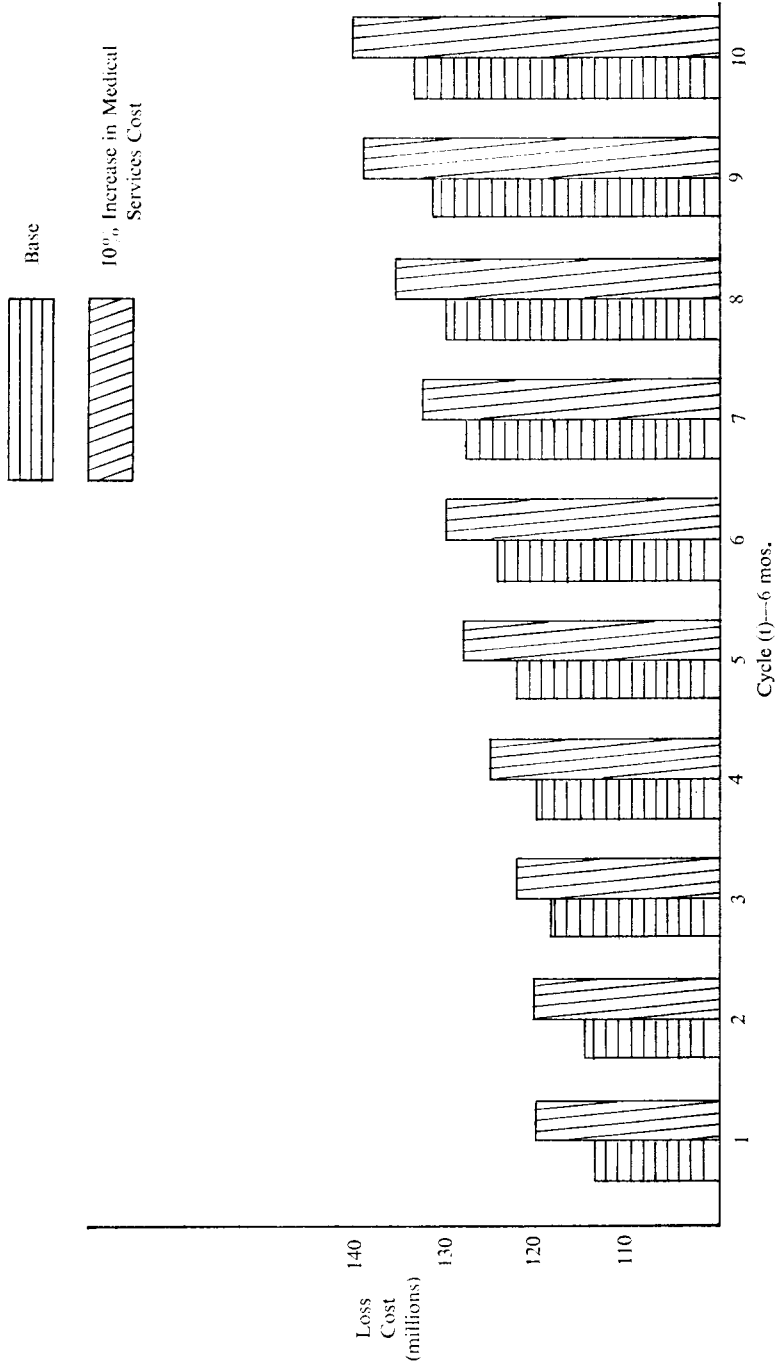


Figure XIII

INSURANCE OPERATION LOSS COST



A Control Model

The system represented by the model is a stock casualty company in its first decade of operation. Figure XIV depicts the system in terms of the factors most closely related to its survival.

Costs (C) and Revenues (R) are examined by the model and, if $C-R > 0$, signals are transmitted to the controller, or sensor, which evaluates 1) the amount of excess cost (arising variously from operating expense; claims; reserves; or profits), 2) the amount of capital (K) consumed in period t, and 3) the amount of premium growth rate in relation to a stated range—each specified in terms of decision rules. The first rule, $R(t) \geq \hat{C}(t)$, indicates that revenues should exceed costs in period t; since $C-R > 0$, costs exceed revenues.

The second rule, $-\hat{\pi}(t) \leq \hat{K}/n$ states that negative profits (losses) should consume no more capital than expected to be consumed in meeting losses in an average year (\hat{K}/n). Assume that capital to be consumed is above average.

The third rule, $1.05 \leq \hat{P}(t)/P(t-1) < 1.10$, states that expected annual premium growth should be between five and ten per cent.

The controller then transmits signals to the control variables, $P_{(t)}/P_{(t-1)}$ (annual premium growth rate), $I_{(t)}/I_{(t-1)}$ (investment earnings growth), and $K_{(t)}/K_{(t-1)}$ (capital funds growth). Some combination of changes in these variables is effected such that costs are restrained and/or revenues increased during the next period. For example, recruitment of agents may be restrained; a more productive investment program executed; additional capital obtained, etc.

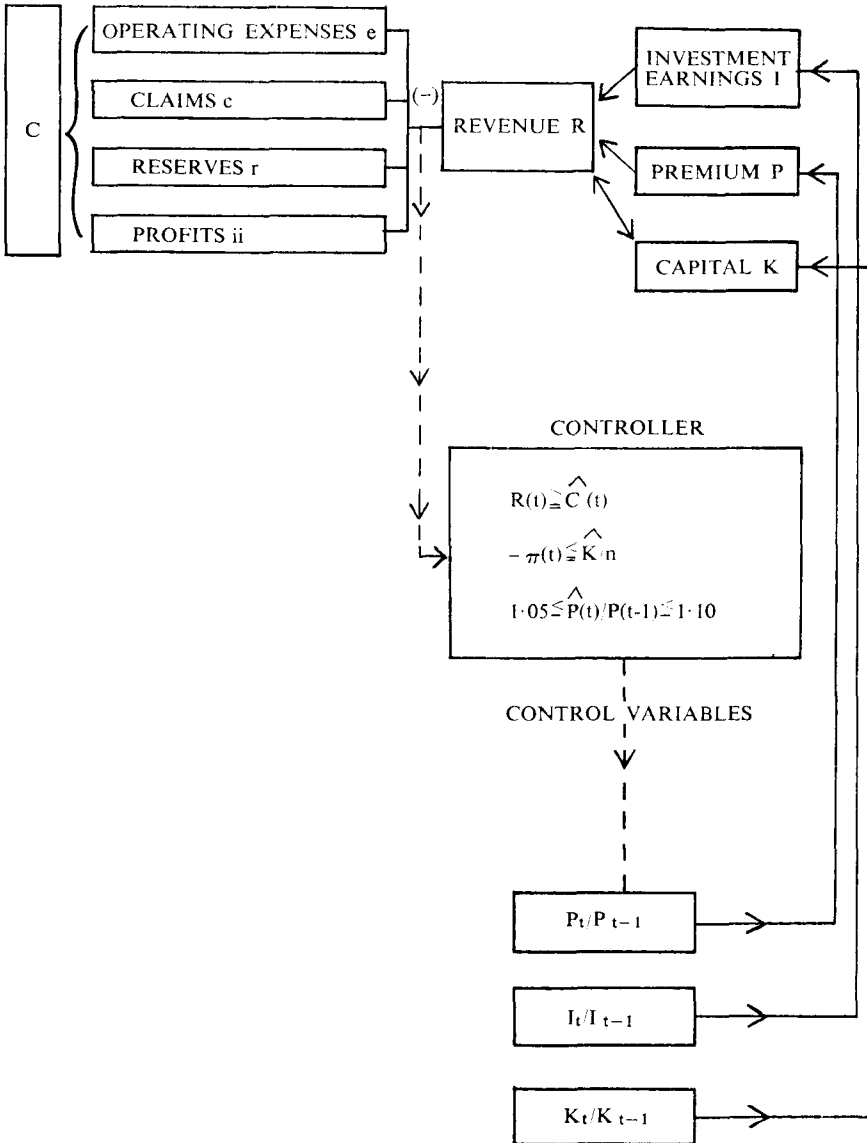
The adaptive feature of this model type is its chief attraction. In a system sufficiently complex, the controller might execute experiments with various values of the control variables and select the best value. Side constraints might be introduced to bound the values of the control variables, a further complication of the system. In view of rapid developments in control theory and application of control models to social systems, insurance operations analysis stands to profit from development of control applications.

CONCLUDING REMARKS

This Paper has sought to describe the application of mathematical models in insurance operations and planning. The evidence is persuasive that models impose a discipline upon planning because of the logic they require. Moreover, they extend the ability of planners to select strategies from among possible options by permitting the consequences of candidate strategies to be estimated in advance. Clearly the advantages of models are a powerful argument for a company to build a capability in model development and use. Some cautions about development and use of models are in order. Models should not be imposed from the outside (or topside). The process should begin with a user department and its problems. User understanding is in all cases more important than model sophistication. Simplicity should be preserved in model conservation and flexibility sought in its design. Finally, all of the human relations sensitivity that usually attends introduction of a new procedure must be brought to bear on the introduction of models.

Figure XIV

CONTROL APPLICATION



EXTENSION AND DEVELOPMENT OF CO-OPERATIVE INSURANCE AS AN ALTERNATIVE TO NATIONALISATION

by: Mr. Klas BACK, *The Folksam Group*

1. Introduction

In many countries there exist political demands that the insurance industry be nationalised. The origin and scope of this demand varies. In countries, having strong social democratic parties, the principle of nationalising key economic areas, including the insurance industry, has for long been intensively debated as a way of challenging the capitalistic profit-making system and introducing economic democracy. The State has consequently intervened in some economic areas, including insurance—health insurance, pension systems and workmen's compensation are handled by government bodies. However, the major part of the traditional insurance activity has generally not been affected by the State directly taking over the operations. In the countries of Asia, Africa and Latin America political demands for nationalising insurance are generally expressed for somewhat different reasons, as for example, the lack of a domestically owned insurance industry.

The general tendency, however, seems to be that the question of a total nationalisation will be acute in several countries also in the future. Based on the situation in Europe and North America the cooperative insurers are generally not taking any active stand against the nationalisation proposals. The reason for this attitude is that their role on the market is limited either to a certain geographical area or to a specific sphere of operation and anyway not influential enough to be of any major concern in the political opinion making.

To the policyholders, of course, the arrangement with two systems, i.e., the State and the Cooperatives, complementing each other has proved beneficial in many cases. Obviously therefore the task to open a debate on Cooperative insurance versus Nationalised insurance has several limitations. The attempt made in this Paper is not to draw a borderline between the two but to stimulate a discussion on the force and strength which Cooperative insurance offers.

2. Objectives of Nationalisation in General

Generally, it is assumed that Cooperation and Nationalisation are alternative forms of collective control but based on two different and conflicting theories. In considering the merits and demerits of the two alternative forms it would be necessary to look into the mechanics of operation. In his Paper presented at the Cooperative Congress in Prague in 1948, Mr. James Peddie, a British Cooperator, stated that nationalisation must be judged by what it sets out to accomplish and how far the methods employed are likely to achieve such social and economic objectives. Some of the relevant objectives are:

To create the means whereby public ownership can give the people more direct control over their own economic affairs and prevent the pursuit of private profit from conflicting with public interest.

To ensure the rational development of the country's resources and the maximum economic benefit from large scale operations.

To secure an extension of the principles of democracy into the economic field.

But the objectives indicated above are not confined to the advocates of nationalisation. Thus, nationalisation is not the only instrument by which the objectives can be realised. According to Mr. Peddie, Cooperation is a mature method of democratic organisation that has demonstrated its ability to operate and develop with economic efficiency and at the same time provide a realistic form of democratic ownership with direct participation and responsibility infinitely greater than what is at present possible under the system of nationalisation through public corporation.

Cooperative control does offer greater possibilities of achieving practical democracy in economic affairs than nationalisation. Therefore, the comparative consideration of nationalisation and Cooperation is not concerned primarily with purpose, but with the mechanics and scope of operation. Judged from this standpoint Cooperation provides a superior form of democratic control and evokes a greater personal interest and participation than does nationalisation. In fact, Cooperation finds its greatest strength in its democratic base, whilst nationalisation, which operates a control much more remote from the people, inevitably carries at least the danger of restrictive bureaucracy.

3. Arguments for Nationalisation of Insurance

The arguments which have been directed against the private insurance industry concern more the whole industry rather than a single company. The criticisms, whether right or wrong, can be summarised into the following points:

The investment funds of the insurance industry are not placed within priority areas.

Some insurers become insolvent, resulting in the loss of policyholders' funds and loss of insurance coverage.

The administration and distribution is not efficient.

Policyholders lack influence on the operations.

The unavailability of insurance coverages to certain segments of the public.

The validity of these criticisms varies from country to country. Additional points could also be made. Many countries, for example, are experiencing a growth of large-scale groupings that are bringing about a condition of private monopoly in many fields. In an insurance market dominated by a few large private companies it can well happen that competition may cease as a result of far-reaching collaboration, e.g., by way of tariff associations, etc. Such a situation can be counteracted by the existence of a progressive Cooperative insurance operation opening its activities to other popular movements by actively engaging them in its parliamentary structure, in the

development of insurance products and distribution channels to suit their needs and by providing for the influence of the policyholders, etc. However, a well functioning system of government control of insurance business will be both necessary and desirable.

4. Government Supervision

Quite naturally one can find great variations in the objective and scope of the different government control and supervisory systems. Most countries do have quite a penetrating control system with the objectives:

to guarantee the solvency of the insurers implying that they will fulfil their obligation towards the policyholders.

to guarantee that the premiums are kept on a fair level—and to ensure access to insurance coverages to all who require it.

Though a penetrating control system of this nature implies filing of reports, etc., to the supervisory authority, the extent of this work is usually limited not to bring along any great administrative burden. On the other hand, such a system would work in the interest of the insurance industry as it would protect the policyholders and thus ensure that no pertinent criticisms are directed against the insurance industry.

In most countries the insurance law stipulates in what kind of assets the insurance industry may invest. These stipulations aim at placing the policyholders' money in such assets that produce a reasonable rate of return without being unduly risky. In some countries, the authorities have laid down a policy for investment which limits the possibility for the insurance companies to select investment objects of their choice. This policy aims at channelling a large part of the new funds of the insurance industry which accrue during a year towards, e.g., housing construction and loans to the government. Such an arrangement refutes a major argument for nationalisation as it would be possible to obtain a satisfactory public control of investment funds.

5. Consumer Interest — The Deciding Factor

Consumer interest must be the decisive factor when an eventual nationalisation of the insurance industry is considered. An insurance company should not be an end in itself. How to organise the insurance industry would depend upon which system meets best the consumer's interests. These interests are:

Consumers'/policyholders' influence on the operations.

Creative capacity.

Fast, fair, and careful claims assessment and adjustment as well as loss prevention activity.

Efficient administration and fair costs.

5. 1—Consumer Influence

Organised consumers in North America and Europe have for some time been demanding greater consumer influence. One of the problems which

Consumerism reveals is the lack of a dialogue between the producer and the consumer. The need for a certain product often does not really emerge out of an expressed need of the consumer. How does this relate to the insurance product?

Studies and experiences show that many people do not quite know what insurance they have, what risks are covered; and what kind of protection they really need. They also have difficulty in distinguishing between the various kinds of insurances. They find it much too troublesome to get a good grip on the insurance situation. Insurance companies are regarded as large, anonymous and impersonal institutions and it is believed that they make big profits.

A Committee formed by the Swedish National Consumer Council to ascertain the need and the prospects for consumer information about insurance has recently published its report. The Committee considers that the priority areas are:

- the households' overall economic planning;
- the content and function of insurance coverages;
- uncovering consumer problems and supplying information in the consumer-to-producer direction;
- claims settlement; for the policyholders to be able to have their cases reconsidered, other measures are required in addition to information.

5. 1.1—Parliamentary Structure

It is, of course, a difficult problem for large companies and corporations to satisfy the demands for a democratic consumer influence. The only proven method is to establish representative bodies. Many of the Member companies of the I.C.A. Insurance Committee have established parliamentary systems in which the policyholders' influence is exercised through representative participation from different popular movements, such as consumers and agricultural cooperatives as well as trade unions.

A question that arises is whether the present parliamentary set-up is sufficiently extensive to meet these expressed demands of increased participative influence. Another, and even more important point, is to consider, as a matter of policy, how to broaden the democratic influence by including more popular movements in the actual insurance business and democratic control structure.

5. 1.2—Supplementary Councils

The Folksam Group realised some years ago the need and necessity of supplementing the policyholders' influence to that of the ordinary parliamentary structure by setting up different types of consultative councils and committees.

5. 1.3—Claims Settlement Council

As has already been pointed out, the settlement of claims is an area of major concern to the policyholders. All claimants should be able to have their cases reviewed if they are dissatisfied or dubious about insurers'

handling of their claims. One system which has worked out well in *Folksam* in this respect is the creation of different claims settlement councils in which the consumers' representatives have a majority influence. Such councils have an advisory function and the results so far have been positive. They have not been challenged as regards objectivity.

5. 1.4—Product Development Councils

The content and function of various types of insurance policies are another major area of importance. *The Folksam Group* has during the years established different councils, e.g., Women Council; Youth Council; School Council, etc., whose objective is to study various types of insurance policies and suggest improvements upon them. Last year, these councils were all amalgamated into one, the Social Council, in order to remove some duplication of effort. New insurance coverages are submitted to the *Folksam Social Council* for consideration so that the Council may give its opinion before the products are introduced into the market.

In order to satisfy the special insurance problems of different groups of policyholders several advisory committees have been established. Examples of such committees are the one for truck owners and the one for group sickness insurance by collective agreements. Thirty-four advisory committees have been set up within the different trade unions.

5. 1.5—Strengthening of the Consumer Influence

There are no set forms of organisation for nationalised undertakings. The forms vary from direct operations by a government department to "private" enterprises 51% owned by the State. There has been a constant striving to find a formula that would combine safeguards for the public interest with flexibility of control, speed of action, business efficiency and freedom from bureaucracy.

The Cooperative form of organisation has in many ways proved itself capable of meeting that formula. The different councils and committees described here have no doubt brought along an improved consumer influence. However, there seems to be a reason to consider seriously how consumer influence can be made even more efficient. Among the Members affiliated to the I.C.A. Insurance Committee the parliamentary systems obviously differ to a large extent. In some cases a geographical decentralisation could be considered, giving way to regional representation which could continuously be kept informed about the activity; discuss long-term guidelines; financial matters, product development; loss prevention; and health promotion activities. To such a regional representation delegates could be appointed also from the parliamentary structure of those interest groups or popular movements which would have an interest in insurance questions.

Another way could be to establish advisory committees to deal with special needs of insurance cover important to specific policyholder groups. The committees could also deal with such matters as product development; claims settlement; economic and administrative questions. Market experience and marketing policy would be guiding criteria in deciding

where and when to set up such committees. Of course, the prerequisite would be that the collective groups of policyholders must have rather large movements representing them.

5. 2—Creative Capacity

In Europe, the insurance industry is characterised by a hard competition as a result of the amalgamation process during the last few years. This competitive setting has in turn resulted in an active product development process which has brought along the introduction into the market of new and more suitable insurance products. The insurance industry has flexibly and quickly adapted itself to any improvements and developments of the covers extended under the social security system. Several insurance cooperatives have acted as an instrument for the consumers and the trade union movement to advance the insurance matters further than what the government and the parliament are in a position to decide upon at present. The advisory committees referred to above play a most important role in helping to design and provide the insurance covers needed to supplement the protection which is already available through the social security system.

It is, of course, an open question whether a totally nationalised insurance system would be in a position to show the same creativity to improve the insurance products as a competitive market in which an active cooperative insurer plays a significant role. It is more likely that a monopolistic corporation will overlook some of the demands for service and development from the policyholder. There is also a risk that it will be bureaucratic in its approach. The objective and scope of the nationalised system would most likely vary depending upon the ruling party's approach and execution of the social security system in the country. An insurance cooperative, on the other hand, whose activities are controlled by the consumers will always act in their interest.

5. 3—Claims Service and Loss Prevention

Theoretically, a nationalised insurance system would have possibilities to arrange for an efficient claims service. A system of consumer influence through claims settlement councils and also the democratic basis would however ensure the fairness and efficiency of the cooperative insurer.

The basis for a cooperative insurer's interest in questions of health research and loss prevention activities is the understanding that policyholders' interests can be served best if losses can be prevented from occurring. The insurance industry should not be solely a clerical institution for receiving premiums and paying out compensation. Activities of this nature will ensure the policyholders that the insurance cooperative is utilising its funds in ways most advantageous and satisfactory to them.

The activities in this field are manifold. Through campaigns in collaboration with large popular movements, educational activities and publication of printed material, a cooperative insurer can spread information to open up discussions and to stimulate opinion making for improved conditions in different areas such as social, medical and scientific fields.

5. 4—Efficient Administration and Fair Costs

One of the arguments put forward in favour of nationalisation is that it would bring along reduced costs due to a higher degree of efficiency. However, a distinction should be made as to the types of costs involved, i.e., costs for administration and sales, and claims costs.

Any savings that could be obtained under nationalisation would relate to the administration and sales costs, as well as the elimination of profits. To meet the insurance needs of the individual household and family an analysis of such a need related to the household's overall economic situation is necessary. A nationalised insurance industry which would attempt to provide all types of policies to the consumers may have to maintain a sales force working on similar lines as the one existing within the private insurance industry. A nationalised insurance company would thus carry the burden of sales costs to an extent similar to that of private insurance industry. Savings in sales costs would mainly depend upon the nationalised company concentrating upon new sales only and not transfer of policies from one company to another.

With regard to administration costs some savings would be possible in a nationalised setting. The duplication of functions by several insurance companies could be avoided, resulting in certain savings by reduction of staff and premises. In relation to the total costs these savings would not be significant.

By being based on, and having the active support of, popular movements, a cooperative insurer also has the possibilities of significantly reducing marketing and administrative costs. Any reductions in premium rates achieved by the cooperative insurance society will force the private insurance industry to reduce their premium rates if they have to retain their share of the market.

A cooperative insurance society, in which the policyholders have an influence, as outlined earlier, would be in a better position to offer insurance products to its members which would suit most of them. That being the situation it may also be easier to find new distribution channels. The cooperative insurance society and the sponsoring organisations could agree on some basic features of a group policy which might then contain some variations suited to a particular trade union or cooperative.

The savings that could be obtained in claims costs are related not only to the loss prevention activities but also to the efforts in the field of reduced repair costs. Insurance cooperatives in different countries have been the pioneers in this field, especially in reduced repair costs for automobiles. By taking active steps, such as owning garages which carry out experiments in improved auto repair techniques, trying out new repair tools and using second hand spare parts, it has been possible to obtain substantial savings.

6. Conclusion

The consumer interest is the decisive factor in determining the organisation of the insurance industry. There is much in favour of Cooperation as the system which satisfies best the consumer interests. An efficient government control system of the insurance industry will no doubt be necessary.

A nationalised insurance industry would not have the same possibilities to offer a direct consumer influence. Secondly, it provides no guarantees that the demands of the popular movements will be taken care of, particularly since there is always a danger that with a shift in political power the policies of the new government might adversely affect the nationalised operations. For popular movements such as trade unions and others considering insurance to be an important economic area where they have specific interests to safeguard, the insurance cooperative can be instrumental in achieving far-reaching results. An insurance cooperative is by its very nature in an excellent position to meet the essential challenges directed against the insurance trade. By inviting these popular movements to participate in the cooperative insurance organisation through the parliamentary structure, the advisory councils and committees in areas such as product development, claims settlement and loss prevention, these movements will gain an influence on the insurance operations which would be helpful in meeting their demands for useful insurance covers.

AVAILABILITY OF INSURANCE IN “HIGH RISK” AREAS

by Mr. Robert E. VANDERBEEK,
League Life and General Insurance Companies

A subject of considerable discussion in the United States the past few years has been the problem of assuring ready availability of insurance to consumers in “high risk” areas. It has been a major public policy question and issue for many personal lines of property and liability insurance. Availability problems have occurred in fire, crime and automobile insurance as well as in other diverse lines as windstorm insurance in coastal areas, and earthquake and other natural disaster insurance.

Nature of the Problem

The term “availability” refers to the ability of consumers to conveniently purchase and maintain adequate insurance from private insurance companies at a “reasonable” price. When a significant number of people are unable to buy insurance from the private sector, or experience difficulty in buying it if they are cancelled, an availability problem exists.

It is occasionally stated that insurance is always available if an insurance company can charge a very high price. Such an assertion is not always correct since the practical fact is that the price may be prohibitive. That is, many consumers may not be able to afford or will not purchase the insurance even if it is offered. Thus, “reasonableness” or economically feasible premiums is an important part of availability.

The problems of availability in the United States are largely—but not exclusively—urban in nature. Insurance premiums for basic insurance coverages such as fire, automobile, and crime insurance in urban areas are high. Consumers living in these areas experience severe difficulties in purchasing and maintaining personal insurance coverages. The problem is particularly severe in automobile insurance. Insurance companies writing auto insurance in cities and urban areas face mounting losses. Premiums are escalating rapidly while at the same time the number of uninsureds is increasing.

Problems of availability have not been as serious in European countries as in the United States. On the basis of the reports on this problem it does appear that the situation has been handled much better in Europe than in the United States. There are many reasons for this including different social and regulatory conditions. As an example, in the automobile insurance area, European countries tend to be much more strict in the licensing of high risk drivers. Public authorities in the United States are reluctant to revoke the license of persons with extremely bad driving records. Auto insurance must somehow in the United States, be provided to such drivers at affordable prices.

A more fundamental cause of high prices in the cities and urban areas is the high frequency of losses. Such frequency can be traced to many factors such as: congestion—in order words, a lot of cars in small streets; legal environment; attitudes of consumers to insurance; and other variables. Reducing the frequency is therefore extremely difficult. Again, European countries, for the most part, have not experienced this high frequency and most consumers have been able to afford the insurance. This is not to say that the problem may not occur in the future. For example, there is already some concern in Sweden about the rising frequency of crime and the resulting increase in crime insurance prices in that country.

The question arises as to whether private insurers can provide insurance to high risk areas at reasonable prices. I believe they can, but in the United States the entire insurance industry will have to be more positive and innovative if the problem is to be solved. As I mentioned, the availability problem has not been as serious in Europe as in the United States. The private insurance industry in Europe has apparently been more responsive and has taken action where the problem has occurred. We, in the United States, are looking at the European experience in dealing with the availability problem.

Existing Plans in the United States

In the United States at the present time we have what we call “assigned risk” plans for automobile insurance which have been in effect for many years. Yet, they are not working efficiently or effectively in meeting the very real availability problem. Why?

The assigned risk plan operates on the principle that there is a “voluntary” market and a “residual” market, and that the two must be separated and **treated** differently. A consumer, to be eligible for the residual or assigned risk market, must specify that he cannot secure insurance from the company or companies of his choice. If the applicant establishes that he cannot purchase the insurance from the company of his choice he is then “assigned” to an unknown company, at least unknown to him, selected randomly by the assigned risk plan. Actually this is done by rotation or by some system which relates the number of assignments a company would receive to the amount of auto insurance business it is underwriting in that particular State; it goes on a rotation basis so that, for example, a company will get the 16th or 20th or 26th person in a row. The company does not know who it is going to get until the application comes in. Separate applications and forms are used for assigned risks and the consumer’s choice of type and amount of coverage is, in general, very limited. Because of such separate treatment and lack of choice there is considerable social stigma attached to assigned risk plans and public animosity toward them. It should be pointed out that many people in the assigned risk plans are not bad drivers. Many people are in assigned risk plans only because they live in a congested area. It is very important to recognise that a number of people in the plan are there only because of where they live, and not on the basis of how they live. Since risks or applicants, and not losses, are distributed to the industry through the assigned risk plans, the losses of urban areas are not distributed fairly to all companies in the industry. This results from the fact that

companies have the right to refuse insurance to any applicant, and some insurance companies do not accept business in urban areas except when it is "assigned" to them. For example, *State Farm Insurance*, the largest insurer in the United States, underwrites much more rural and suburban business in proportion to its total than it does in the cities; and in our own State, *State Farm* rarely underwrites or accepts business in the city of Detroit if it can avoid it. Moreover, the company operating in urban areas has a double "risk" since it not only bears the losses of business voluntarily written in such areas, but also the losses of the risks assigned to it by the assigned risk plan. Lastly, every State has an assigned risk plan and each plan has its special forms and staff, resulting in considerable duplication and expense.

The inadequacy of and public disfavor with assigned risk plans were highlighted this year when the State of Maryland created its own State Insurance Bureau to replace the assigned risk plan for high risk drivers. It is clear that a new solution is necessary for auto insurance.

In the property insurance field numerous State "FAIR Plans" have been established. The FAIR (Fair Access to Insurance Requirements) Plans were established by federal statute following the major riots which occurred in Detroit and other cities in the United States in 1967. The intent of the plans is to provide availability of essential property insurance. Such plans, while solving some of the availability problems, are still not satisfying the needs of the public. The major problem is similar to the assigned risk plans. The consumer is still subject to special underwriting treatment and classification. There is a lack of convenience, publicity, and access to the plans. Choice of coverage is limited. Unlike the assigned risk plans, the FAIR Plans are reinsurance pools with all companies participating, but operating through a separate and distinct operating facility.

Various reinsurance pools operating with servicing carriers have also been established for other perils, such as windstorm. The criticisms of the assigned risk plans and FAIR Plans are also applicable to such pools since the public does not have ready access to the pools.

Solution

Public pressure to reform the assigned risk and FAIR Plans and to expand the types of insurance to be included in the plans is mounting. How can insurers meet such demand?

After examining the alternatives, we are convinced that our Canadian friends found a solution when they created the "Canadian Facility." The Facility replaced the auto insurance assigned risk plans and has enjoyed remarkable success. It has not, unfortunately, stopped the nationalisation, but it has created a much better climate for auto insurance in the various Provinces. Availability of auto insurance has ceased to be a major problem in Canada and the image of the industry has substantially improved.

The Canadian Facility is based on concepts which had already been adopted in Europe—for example, in Switzerland. The essence of the Facility is a quota share reinsurance plan in which all companies participate. Thus, losses are shared equitably. The other major concept of the Facility which overcomes the disadvantages and problems of the assigned risk and FAIR

plans is that the reinsurance is strictly internal. That is, an auto insurance consumer can go to **any** insurer or to an insurer in which he has an established relationship and be guaranteed adequate insurance by the insurer of his choice. The insured is given no separate treatment by the company of his choice, and no special forms or policies are used. The company in turn, and without the knowledge or concern of the insured, can decide if it wants to cede the risk to the Facility. The reinsurance is almost solely a computer operation resulting in low administrative costs. Premiums and losses are allocated to the participating companies automatically and efficiently by computer. The amount of charge for each company is in proportion to the amount of the premium it has in that particular Province. When the insured suffers a loss the ceding company, in other words the company that is on risk and has written the policy, adjusts the loss in the same manner as it would for any other Insured. In summary, the key factors are guaranteed underwriting and issue by the company of the consumer's choice for coverage selected by the consumer from the company's normal portfolio at a rate based on classification that is objective and credible.

A reinsurance plan such as the Canadian Facility is particularly advantageous and important to co-operative insurers. It means that we can provide service to all of our members, which has always been our tradition. Our members can be served without being labelled as "undesirable" and without being shuffled off to some assigned risk or FAIR plan. We would be able to offer and provide adequate insurance to any member at a reasonable price and to service the member if he suffers a loss. To the best of our knowledge *Nationwide* and *League General* are the only companies of any type in the United States to publicly advocate a "Canadian type" Facility for handling auto insurance in our country. 1/ **In addition, I believe that the Facility concept as found in Canada should be adopted and implemented in the United States not only for automobile insurance but for a broad number of insurance perils where there is or may be a substantial availability problem.** The Facility gives the consumer maximum freedom of choice and at the same time equitably distributes losses to the entire industry. Although there has been considerable opposition to the concept by many American companies, I believe there is growing support for the idea. The time has come for the American insurance industry to take constructive action as insurers in Europe and Canada have done to solve this serious problem.

1/ Note by the author:

Since this Paper was prepared at least one major insurance company in the U.S., the *Life and Casualty*, has come out with a version of the Canadian Facility which I do not believe is as good as the *Nationwide* proposal—but it indicates that even what are called the "old line" commercial companies recognise the need for a change.

INTERNATIONAL CO-OPERATIVE
INSURANCE FEDERATION

- | | |
|--------------|---|
| 1. ARGENTINA | 1. <i>Asociación Argentina de Cooperativa y Mutualidades de Seguros,</i>
Avda, de Mayo 1370 Piso 1o, Buenos Aires. |
| 2. AUSTRALIA | 2. <i>Co-operative Insurance Company of Australia Limited,</i>
528-534 Collins Street, Melbourne C.I. |
| | 3. <i>Westralian Farmers Co-operative Limited,</i>
569 Wellington Street, Perth. |
| 3. AUSTRIA | 4. <i>Wiener Städtische Wechselseitige Versicherungsanstalt,</i>
Wien 1, Ringturm, 1011 Wien, Postfach 80. |
| 4 BELGIUM | 5. <i>La Prévoyance Sociale,</i> and |
| | 6. <i>La Prévoyance Sociale Accidents du Travail,</i> and |
| | 7. <i>La Prévoyance Sociale Réassurance,</i>
P.S. Building, 151 rue Royale, Brussels 3. |
| | 8. <i>L'Economie Populaire,</i>
Rue des Champs, 30-5300 Ciney. |
| | 9. <i>Les Assurances Populaires,</i>
Rue de la Loi, 141, Brussels 4. |
| 5. CANADA | 10. <i>Assurances U.C.C. Compagnie Mutuelle,</i>
1259, rue Berri, Montréal 132. |
| | 11. <i>Co-operative Insurance Services Limited,</i>
1920 College Avenue, Regina, Saskatchewan. |
| | 12. <i>Co-operators Insurance Association (Guelph),</i> and |
| | 13. <i>Co-operators Life Insurance Association (Guelph),</i>
Priory Square, Guelph, Ontario. |
| | 14. <i>La Sauvegarde Compagnie d'Assurance Sur La Vie,</i>
152, est rue Notre Dame, Montréal 127,
Province de Québec. |

15. *La Société d'Assurance des Caisses Populaires*,
100 Est, Route Trans-Canada, Lévis,
Province de Québec.
16. *L'Assurance-Vie Desjardins*,
Avenue des Commandeurs, Lévis, Province
de Québec.
17. *Les Artisans Coopvie*,
333, est rue Craig, Montréal 129,
Province de Québec.
6. COLOMBIA 18. *Seguros La Equidad Sociedad Cooperativa*,
Carrera 10a No. 18-36 Piso 20, Bogotá.
7. DENMARK 19. *Andels-Anstalten Tryg*,
Rosenørns Allé, København V.
20. *Andels-Pensionsforeningen*,
1553 København V, H.C. Andersens
Boulevard 47.
21. *Forsikrings-Aktieselskabet Alka*,
Gothersgade 45, 1002 København K.
22. *Forsikringsselskabet Faellesvirke*,
Vester Farimagsgade 19, København V.
23. *Genforsikringsselskabet Nerva A/S*,
Rosenørns Allé, København V.
24. *Mejeriernes og Landbrugets Ulykkesforsikring*,
Vester Farimagsgade 19, København V.
8. ECUADOR *25. *Cooperativa de Seguros del Ecuador Ltda.*,
Baquedano 358, Apartado 2062, Quito.
9. FEDERAL 26. *Hamburger Internationale Rückversicherung*,
REPUBLIC OF 2 Hamburg 1, Kattrepel 2, Montanhof,
GERMANY Postfach 60 46.
27. *Raiffeisen-und Volksbanken-Versicherung*,
62 Wiesbaden, Taunusstrasse 1.
28. *Volksfürsorge Deutsche Sachversicherung AG*,
2 Hamburg 1, Steinstrasse, 27, Postfach 998.
29. *Volksfürsorge Lebensversicherung AG*,
2 Hamburg 1, An der Alster 57-63,
Postfach 990-992.

30. *Volksfürsorge Rechtsschutz-Versicherung AG*,
2 Hamburg 1, Raboisen 58.
10. FINLAND 31. *Eläkekassa Elonvara*,
Runeberginkatu 5, Helsinki, 10.
32. *Eläkekassa Tuki*, and
33. *Keskinäinen Henkivakuutusyhtiö Kansa*,
Hämeentie 33, Helsinki, 50.
34. *Keskinäinen Henkivakuutusyhtiö Pohja*,
Runeberginkatu 5, Helsinki, 10.
35. *Keskinäinen Vahinkovakuutusyhtiö Kansa*,
Hämeentie 33, Helsinki, 50.
36. *Keskinäinen Vahinkovakuutusyhtiö Pohja*,
Runeberginkatu 5, Helsinki 10.
11. FRANCE 37. *La Sauvegarde*,
14 rue de la Chapelle, 75-Paris-18e.
12. GREAT BRITAIN 38. *Co-operative Insurance Society Limited*,
Miller Street, Manchester, M60 OAL.
13. HOLLAND. 39. *Coöperatieve Vereniging "Centraal Beheer"*
G.A.,
Apeldoorn, Pr. Willem A. Laan.
40. *De Centrale Levensverzekeringbank NV*,
Hoofdkantoor, 's Gravenhage, Rijnstraat 28.
41. *N.V. Vemaco*,
Vierhavensstraat 40-42, Rotterdam-7,
Postbus 6008.
14. ICELAND 42. *Andvaka*, and
43. *Samvinnutryggingar Mutual Insurance Society*,
Ármúli 3, Reykjavik SA.
15. INDIA 44. *Co-operative General Insurance Society Limited*,
Co-operative General Insurance Building,
Narayanguda, P.B. No. 1013, Hyderabad-29
(A.P.).

45. *The Union Co-operative Insurance Society Limited,*
Union Co-operative Insurance Building,
23 Sir Phirozshah Mehta Road, Fort,
Post Bus No. 1027, Bombay -1 (B.R.).
16. ISRAEL 46. *Hassneh Insurance Company of Israel Limited,*
115, Allenby Road, P.O. Box 805, Tel Aviv.
17. ITALY 47. *Compagnia Assicuratrice Unipol,*
40126 Bologna, Via Oberdan 24.
48. *MAECI—Societa Mutua di Assicurazioni e di Riassicurazioni,*
Via Zambelletti 11, 20129 Milan.
18. JAPAN 49. *National Federation of Insurance Co-operatives for Labourers and Consumers,*
Rosai-Kaikan, 7-20-8 Nishi-Shinjuku,
Shinjuku-ku, Tokyo.
50. *Zenkyoren,*
Zenkyoren Building, 2-7 Hirakawa-cho,
Chiyoda-ku, Tokyo.
19. KOREA 51. *National Agricultural Co-operative Federation,*
111, Kyonji Dong, Chongro-ku, Seoul.
20. MALAYSIA 52. *The Malaysian Co-operative Insurance Society Limited,*
36, Jalan Ampang, P.O. Box 817, Kuala Lumpur.
21. NORWAY 53. *Forsikringsaktieselskapet Samvirke,* and
54. *Livsforsikringsaktieselskapet Samvirke,*
Tollbugata 20, Oslo 1.
22. PAKISTAN 55. *The Co-operative Insurance Society of Pakistan Limited,*
23 Shahrah Quaid-E-Azam, P.O. Box 147,
Lahore.
23. PUERTO RICO 56. *Cooperativa de Seguros de Vida de Puerto Rico,*
Apartado 3428-GPO, San Juan, Puerto Rico
00936.
24. SWEDEN 57. *Folksam General Mutual Insurance Society,* and
58. *Folksam International Insurance Company Limited,* and

- 59. *Folksam Mutual Life Insurance Society*, and
- 60. *Folksam Workmen's Compensation Mutual Insurance Society*,
Folksam Building, Bohusgatan 14,
Stockholm 20.
- 61. *Kooperationens Pensionsanstalt*,
Storforsplan 44, S-123 21 Stockholm-Farsta.
- 25. SWITZERLAND 62. *Coop-Lebensversicherungs-Genossenschaft*,
Aeschenvorstadt 67, 4002 Basel.
- 26. TUNISIA 63. *El Ittihad Co-operative d'Assurances*,
Siege Social, 16 Avenue de Carthage, Tunis.
- 27. U.S.A. 64. *League General Insurance Company*, and
- 65. *League Life Insurance Company*,
P.O. Box 5010, Detroit, Michigan 48235.
- 66. *Mutual Service Casualty Insurance Company*, and
- 67. *Mutual Service Life Insurance Company*,
1919, University Avenue, St. Paul,
Minnesota 55104.
- 68. *Nationwide General Insurance Company*, and
- 69. *Nationwide Life Insurance Company*, and
- 70. *Nationwide Mutual Fire Insurance Company*, and
- 71. *Nationwide Mutual Insurance Company*,
246 North High Street, Columbus,
Ohio 43216.
- 72. *Urban Community Insurance Company*,
309 West 23rd Street, New York, N.Y. 10011.

* This member has been admitted into membership since the Conference was held.

THE EXECUTIVE COMMITTEE

Mr. R. Lemaire	<i>La Prévoyance Sociale.</i> Belgium.	Chairman.
Mr. N. A. Kularajah	<i>The Malaysian C.I.S.,</i> Malaysia.	Vice-Chairman
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Mr. K. Back	<i>The Folksam Group,</i> Sweden.	
Mr. D. E. Johnson	<i>Nationwide Insurance.</i> U.S.A.	
Mr. G. L. Matheson	<i>Co-operative Insurance</i> <i>Services.</i> Canada.	
Mr. W. Rittner	<i>Volksfürsorge Insurance</i> <i>Companies Group.</i> Federal Republic of Germany.	
Mr. Y. Yamanaka	<i>Zenkyoren.</i> Japan.	
* * * *		
Mr. F. H. Edwards	<i>Co-operative Insurance</i> <i>Society,</i> Great Britain.	Assistant Secretary and Assistant Treasurer.

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Mr. D. E. Johnson	<i>Nationwide Insurance,</i> U.S.A.	
Mr. K. Lindberg	<i>The Folksam Group,</i> Sweden.	

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Mr. W. E. Fitzpatrick	<i>Nationwide Insurance,</i> U.S.A.	
Mr. B. Kalms	<i>Raiffeisen und Volksbanken Versicherung,</i> Federal Republic of Germany.	
Mr. M. Nussbaum	<i>Hassneh Insurance Company of Israel,</i> Israel.	
Mr. R. E. Vanderbeek	<i>League Life/General Insurance,</i> U.S.A.	
Mr. K. Holler	<i>Samvirke Group,</i> Norway.	
Mr. O. Mercure	<i>L'Assurance-Vie Desjardins,</i> Canada.	
Mr. T. Kokubo	<i>Zenkyoren,</i> Japan.	
Mr. R. Lemaire	<i>La Prévoyance Sociale,</i> Belgium.	Ex-Officio.
* * * *		
Mr. H. Dahlberg	<i>The Folksam Group,</i> Sweden.	Assistant Secretary.

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* * * *		
Mr. E. F. Hull	<i>Nationwide Insurance,</i> U.S.A.	Vice-President Assistant Secretary and Assistant Treasurer.

INTERNATIONAL CO-OPERATIVE INSURANCE FEDERATION

RULES

1. The International Co-operative Insurance Federation of the International Co-operative Alliance has as its objects the joint investigation, the development of joint action programmes, the exchange of information and personnel, and the establishment of international co-operative relations in matters of insurance and reinsurance.

2. Membership of the Federation shall be open to co-operative insurance societies. Other insurance organisations may be admitted provided their objects and methods are in conformity with those of the co-operative movement and provided they are not carried on with a view to profit in order to enrich certain individuals or institutions of a capitalistic nature.

Such societies can only become Members of the Federation with the consent of the Central Co-operative Organisation of their respective countries.

But before admission is finally agreed, the views of the existing Member societies of the country concerned shall be ascertained.

3. Contribution to the funds of the Federation shall be calculated on the basis of £1 for each complete £100,000 of yearly premium income, with a minimum contribution of £25 from each affiliated society or group of connected societies.

4. The Executive Committee shall consist of up to nine members elected by the Federation. At the first meeting of the Executive Committee following each Conference, a Chairman, a Vice-Chairman, a Secretary and a Treasurer shall be elected. The Executive Committee shall if it so wishes appoint an Assistant Secretary and Assistant Treasurer. The President, Director and General Secretary of the International Co-operative Alliance shall be ex-officio members of the Executive Committee.

In the event of a vacancy or vacancies arising on the Executive Committee as a result of death, resignation or retirement from the service of a Member Society, the remaining members of the Executive Committee shall have power to co-opt a person or persons employed by a Member Society or Societies to fill the vacancy or vacancies until the next Conference of the Federation. Persons co-opted shall not necessarily be in the service of the Society or Societies which employed the previous member or members.

The Executive Committee shall also have power to invite other person or persons to attend their Meetings if it should appear desirable in order to secure first hand information on specific problems, but such

person or persons shall not participate in the general work of the Executive Committee and shall not have a vote.

5. If possible the Federation shall meet in Conference at the same time and place as the Congress of the International Co-operative Alliance. It shall:-
 - (a) Consider the report of the Executive Committee on its activities since the previous Conference, also the financial statement, and take decisions thereon.
 - (b) Re-elect or replace members of the Executive Committee.
 - (c) Give its decisions regarding the proposals submitted by the Executive Committee.
 - (d) Decide upon the programme of work to be undertaken during the three following years.

Societies which have paid their subscription have the right to vote. Each society has one vote.
If necessary, a special meeting may be convened at any time.

6. The Executive Committee will meet whenever the necessity arises, but not less than once each year.
If possible the Meetings will be held at the same time and place as those of the Central Committee of the International Co-operative Alliance.
7. The Executive Committee is responsible for the organisation of the Conference and the preparation of the Agenda. It shall:-
 - (a) Examine the reports of the Secretary and of the members appointed to report on the various items of the Agenda.
 - (b) Appoint such sub-committees as may be considered necessary for the conduct of its affairs.
 - (c) Approve the statement of receipts and expenditure on the proposition of the Treasurer.
 - (d) Supervise the carrying out by the Secretariat of the decisions of the Conferences.
 - (e) Supervise the work of the sub-committees.
8. The Secretary of the Federation is responsible for the co-ordination of information, for undertaking necessary investigations and for supplying the affiliated Organisations with summaries of the various documents.
He also prepares reports for submission to the Executive Committee.
9. The Secretary of the Federation will furnish reports on the work of the Federation to the Central Committee of the International Co-operative Alliance.

10. Membership of the Federation shall cease:-
- (a) By voluntary resignation: notice of which shall be given by the Organisation concerned at least three months before the end of the financial year of the Federation.
 - (b) By non-payment of subscriptions: any Organisation which in two successive years has not paid its subscription, or made a specific request to the Executive Committee for leniency, shall be deemed to have voluntarily resigned and shall be removed from the list of Members.
 - (c) By resolution of the Federation: any Organisation which acts contrary to the interests or Rules of the Federation, or whose activity is inconsistent with the Objects of the Federation, shall be excluded from membership.

(As amended by the Full Conference on 7th October, 1972)

