# CONSIDERATIONS AFFECTING LIFE ASSURANCE POLICIES IN ENEMY AND ENEMY-OCCUPIED TERRITORY

THE following is an abstract of a discussion which took place at the Institute on 26 November 1943. Some notes concerning the treatment of life assurance policies under the Versailles Treaty are given on p. 169.

**Mr W. H. Clough,** in opening the discussion, said that every person to whom he had spoken on the subject seemed to have different ideas concerning it. He was glad that he had not to deal with the graduation of enemy-occupied territory into co-belligerent territory, which complicated the issue; that problem would be best left to statesmen and not attempted by actuaries. He proposed to discuss the matter in a theoretical manner.

The problem derived from the fact that in war time it was impossible for any country to allow its nationals to have contact with the nationals and friends of those with whom it was at war. Consequently, the Trading with the Enemy Act, 1939, had to be passed. It was obvious from reading that Act that anybody, whether he was a potential enemy or friend, who was inhabiting enemy-occupied territory was technically just as much an enemy as those against whom the country was really fighting. Otherwise, of course, that contact and those financial transactions which the Act was trying to bar would take place in enemy-controlled areas.

Therefore, the effect on life assurance of the Trading with the Enemy Act was such that where an office had issued from one territory a policy to a national or an inhabitant of another territory, which territory was for the duration of hostilities or for part of the duration occupied by the enemy, the contract of life assurance was for the time being incapable of fulfilment. However, the legal position was in no way altered in its ultimate effect by that Act, which was of such a nature as to hold up any enforcement of rights which either party under the contract might have; but those rights remained just as if the Act had not been passed. Consequently, the effect of the Act on fire and accident policies was not catastrophic, but when applied to a life assurance policy it created a totally different set of circumstances; the payment of premiums and the taking of the surrender value were forbidden, and while the Act was in existence the policy could only continue in force under conditions which did not necessitate the payment of premiums.

It was also interesting to note that where a British office, for instance, had a branch in territory which was occupied by the enemy, that branch, strange though it seemed, was for the time being technically the enemy of its head office, but it was in contact with its assured, subject, of course, to any restrictions which the occupying Power had placed on its activities. It therefore seemed that policies issued, for instance, in France by a branch of a British office operating there under French law were not relevant to the topic under discussion. It was to be assumed that in France, in other occupied parts of Europe, and even in the Far East, branches might have gone on accepting premiums and paying surrender values and claims out of those premiums. The problem, therefore, was the problem of an office whose branch had been prevented by enemy action from continuing its activities, or that of an office which had issued across national frontiers policies from its head office to nationals of other territories which had become enemy-occupied territories.

It was interesting to note that there was a reassurance problem involved, because reassurance treaties between offices of different countries were not subject to the law of either country; they were subject to arbitration and they were effective across national frontiers.

It was obvious that a similar problem had to be faced in the last war, but there were essential differences between the two sets of circumstances. In the last war the continent of Europe was cut across by the fighting lines; part was occupied by one set of belligerents and part by another. Therefore there was the reciprocal difficulty of policies taken out by the different sets of nationals with companies which for the time being

became enemy companies. In the present war the whole of Europe, practically speaking, had become enemy-occupied territory, and there was not to any extent the same reciprocity of difficulty. It was, therefore, doubtful whether the provisions of the Versailles Treaty were really relevant to the problem under discussion. It seemed that the latter was much more capable of solution by arrangement between the Government of the United Kingdom and the Governments of the United States of America, Australia and Canada (in which most of the companies were operating) than by being made the subject of separate peace treaties with what might be the only two enemies who would be left at the end of the present war, namely, Germany in Europe and Japan in the Far East.

It was, therefore, unnecessary to waste any time over the provisions of the Versailles Treaty. Obviously they were largely the result of the peculiar position of Belgian policyholders in German companies. The effect of the provisions was that the British offices, along with the German offices and all other offices governed by the Treaty, were forced to pay all claims which had arisen during the period of hostilities or during the period of occupation and to reinstate all policies at the end of that period without regard to the state of health of the life assured.

The present problem related to policies which, by the terms of their automatic non-forfeiture regulations, were kept in full force in their original form until they lapsed by the exhaustion of the surrender value, or were kept in force for a reduced amount by conversion into a paid-up policy, or were dealt with in some other manner in accordance with those terms. All policies issued by British offices to nationals on the Continent of Europe or to nationals in the Far East in territories now occupied by the enemy continued in force, therefore, from the time of the occupation of the territory in question by the enemy until such time as each individual policy ceased to be in force by reason of its own provisions. He felt that in the end British offices would decide to discriminate, if they were so permitted, between real enemies and those who were only technically enemies, namely, nationals of the Empire and nationals of what originally was or ultimately became a friendly Power. There might be provisions in the reparations clauses of the peace treaty (if any) with regard to real enemies.

He thought, therefore, that the major problem would be how to treat those people whose policies had expired or given rise to claims while they were in enemy-occupied territory and who were, in effect, friends or nationals of Great Britain. It seemed that offices were going to treat such people liberally. That statement was based on the facts that British offices in 1938—at the time of the Munich crisis—were liberal enough to their new policyholders to continue issuing policies without the insertion of a war clause, although most people knew that war was inevitable; that in their treatment of policyholders serving in the Royal Air Force they were meeting claims which technically might not have had to be met, and that their attitude to all cases of hardship during the war had been generous. He therefore felt that British policyholders who had been prisoners, or who had suffered as a result of enemy occupation, would be treated with as much generosity as the other classes he had mentioned.

If that view were held, the question arose as to whether it was better to say that offices would pay all claims which had arisen and would reinstate policies on payment of arrears of premiums with evidence of health, or whether it was better to consider from what sources those policies could be kept in force as far as possible so that afterwards the offices would not be subjected to the anti-selection which so many assumed might take place. It was not only the anti-selection which must be considered. There would have been extra mortality during the war period because of war conditions, malnutrition and poverty; and there would quite possibly be extra mortality afterwards owing to the conditions through which the policyholders had passed and the conditions which would in the future operate in Europe.

It should not be imagined that when the war was over it would result in an ideal world with peace treaties easily cleared up within a short period of time. It might possibly result in a world in which some Governments would adopt the same attitude as the Government of the Soviet Union had adopted at the end of the last war, when they said that they were not at all concerned with the reconstitution of private contracts. There might, therefore, be no possibility, under the laws of the various States of Europe, of conditions such as those he would like to see. Even if it were possible to deal with policyholders in Europe and the Far East by treating their contracts as still

operating, some policies would have lapsed because they had not been in force a sufficient length of time to acquire a non-forfeiture value or because the non-forfeiture period had expired.

A possible solution to the problem would be to see whether the margin which often existed between the surrender value and the reserve, and possibly also other sources, could be used to maintain in force those policies which had technically lapsed; in that case reinstatement would not be necessary, and moreover claims which had arisen could be paid. Instead of asking for arrears of premiums, the Continental method of revival could be adopted, under which, if a policy had been in full force for a period of, say, two years but had then been continued purely on a term basis, the premiums originally paid in respect of the earlier period were transferred to cover a period immediately prior to the date of revival. Thus, under an endowment assurance the maturity date would be postponed, or under a whole-life assurance allowance would be made by adjustment of future premiums for the difference in age between the original date of the policy and the new assumed date. Such a method would result in a large number of policies, perhaps encumbered by policy loans but nevertheless still on the books, the premiums on which could be resumed without the complication of heavy arrears; it was certain that the poverty with which the policyholders under discussion would be faced would preclude their paying large sums in respect of arrears.

Generally speaking, if it were desired to deal as far as possible with the policies by maintaining them in force, some such method had to be found, bearing in mind that every company's policies were not subject to the same non-forfeiture provisions. In some cases there might still be a gap which offices would feel could not be bridged, and for such cases the suggestion had been put forward that an appeal might be made to the Government concerned; so far as Germans, for example, were concerned, the cost might come out of reparations. He felt, however, that Government compensation was a dangerous expedient and very difficult to procure; moreover, those who believed in rugged individualism and the perpetuation of the individuality of an office might think it the worst possible solution.

Nevertheless he could visualize the Government acting as the Spanish Government had done with regard to the Spanish War claims; they had taken the view that, if money was to be paid out by the Government, then offices which had had lives at risk during the Spanish War should form a pool, so that instead of each office paying its individual claims they were spread over the whole community. Such a solution would possibly not be looked upon favourably by the bulk of the British offices who had no risk of the type under discussion.

The suggestion he had put forward could be varied in many ways, and it was a solution favourable to the policyholder. What had to be considered was the extent to which it was desirable to be generous, and to which classes of policyholder such generosity should be extended. Then the method of handling the situation would depend upon the size of the financial burden to which offices were subjected. Until some data were obtained, the matter could only be discussed theoretically.

**Mr W. E. H. Hickox** suggested that after the war endowment assurance policyholders should be allowed to reinstate their policies for the original sum assured, without payment of arrears or evidence of health and irrespective of the non-forfeiture condition, by deferring the date of maturity and extending the premium-paying term by the period of non-payment during enemy occupation. Some British offices permitted a similar arrangement for policyholders whose policies had been maintained in force under war-hardship schemes. Such offices had had a certain amount of experience of the suggested procedure, which had been found to appeal to the majority of policyholders.

It was most desirable that attractive terms of reinstatement without payment of arrears should be offered. It seemed only fair that policyholders in enemy-occupied territories should not be treated less generously than persons in the United Kingdom whose policies were being maintained in force under war-hardship schemes. After the war some offices would desire to re-establish themselves as soon as possible in territories which had been overrun by the enemy and the easiest way in which to begin that task would be to reinstate as much of their pre-war business as possible by offering attractive terms of reinstatement. Furthermore, if really attractive terms of reinstatement were offered it would be to the interest of all policyholders to accept them, and

as a result any health option against the offices would be reduced to a minimum. It could be stated generally that the more attractive the terms of reinstatement, the less offices would need to concern themselves with the health option.

The suggested terms of reinstatement would be attractive to policyholders, and would not be likely to involve excessive cost to the offices, even if no evidence of health were required, because endowment assurance reserves were roughly independent of maturity age. Therefore the reserve required on reinstatement after the war would be approximately equal to the reserve held at the date of enemy occupation, provided that the premium to be paid after reinstatement were revised to that appropriate for the original entry age increased by the duration of non-payment of premiums. Some offices might decide to revise the premium in such a manner; but others would probably be prepared to allow reinstatement at the original premium, involving them in some theoretical loss. Offices would benefit by interest earned on the reserve value during the period of enemy occupation; but, on the other hand, they would have to meet the death strain incurred during the war as well as certain administrative expenses, such as payment of salaries and rents of buildings, some of which would not arise for payment until after the war.

Problems might also arise with regard to currency depreciation and loss of assets. Each office would therefore have to make its own estimates of cost but in general the net cost would probably be found not to be excessive.

Endowment assurance policyholders would generally find the suggestion of deferring the maturity date and extending the premium-paying term attractive, provided that their policies were not approaching maturity. If their policies were nearing maturity it would, however, be to their advantage to retain the original maturity date and to pay the arrears of premiums and interest either in cash or by means of a policy loan.

A further point was that it might be desirable to incorporate in the peace treaty a clause nullifying the operation of any automatic paid-up policy non-forfeiture condition. Otherwise it might be to the policyholder's advantage, if he were in good health, to take a paid-up policy payable at the original maturity date instead of resuming premium payments; whereas if he were in bad health it would generally pay him to resume premium payments in order to be covered for the full sum assured.

He had concerned himself almost entirely with endowment assurances because they constituted the bulk of the business. Whole-life assurances might be reinstated at the original premium by imposing a deduction from the sum assured. That deduction could be calculated in a number of different ways and a fairly generous method of calculation which would produce rough equity between the treatment of whole-life and endowment assurance policies might be chosen.

**Mr A. H. Shrewsbury** said that, on the cessation of hostilities, in British territories and in territories of friendly Powers which had been overrun by the enemy would be found the bulk of the policies which had been affected by the war. United Kingdom offices probably had very little business on the lives of enemy nationals. Dominion offices had substantial amounts on the lives of Japanese nationals, but those amounts were comparatively small in relation to the amounts in British and friendly territories which had been overrun. Finally he thought that there were very few British and Allied nationals insured in enemy offices. Therefore, as the opener had indicated, the Versailles Treaty covered only a very small part of the problem with which offices would be confronted. It was interesting to note that that Treaty reflected the fact that as regards life assurance Germany was a debtor country to France and Belgium, and, contrary to British views, included a revival right which was not based on sound principles. The effect of the British enemy-debt legislation was that some German nationals were deprived of the rights which the Treaty gave to them. Many French and Belgians were also losers because of the subsequent inflation of German currency. As Japan was a creditor nation as regards life assurance, perhaps unsound principles would not be so popular after the present war. In any case, it was important to try to base future action on sound principles.

There was a very imperfect knowledge of what had happened in the territories which had been overrun and it was therefore impossible to form any detailed conception of the ultimate settlement; it was only possible to consider broad principles. Many areas had been involved and a considerable number of Governments had power to legislate with reference to some part of those areas, but there would be a smaller risk of conflict-

ing local legislation if some agreement upon principles could be achieved in the English-speaking world. Enemy and enemy-inspired legislation in territories which had been overrun would presumably be disallowed by the Allied Governments, if they did not agree with it, when they drafted the peace treaty.

Regarding the smaller part of the problem, namely policies on the lives of enemy nationals, it could probably be assumed that, if there were any legal rule that war dissolved contracts, that rule would again be overridden. He believed that the confiscation in 1920 of the policies of individual Germans was repugnant to a great many British actuaries, although admittedly that confiscation arose not from the settlement of insurance affairs as such but from the machinery for collecting the war indemnity. The supposition was that a German who had lost his asset in the United Kingdom would be compensated in his own country, so that the total effect of the transaction would merely be that the United Kingdom Government would collect a contribution from the German Government; but, so far as individual Germans were concerned, what had been done was to select those who were vulnerable because they had done business with the United Kingdom and to select from that number those whose policies had happened to become claims or to mature before a specified date. Obviously in the settlement of international affairs life assurance was only one of many things to be considered. Therefore it was possible that the clearing-house system might be invoked again; but it was at least possible to ensure that it would not be adopted again without a clear understanding that the first act in the process was an act of injustice.

To achieve justice, he found it hard to convince himself that it was necessary to do anything more than to tell the enemy national that his contract would be honoured as written. Nevertheless arrangements more favourable to the enemy policyholder might, in fact, be made. The opener had suggested that there might be discrimination between the settlement of the policies of enemies and of friends; nevertheless it was possible that the same terms would be granted to both. The possibility that the principle of equal terms for all might be adopted indicated that care should be taken to ensure that what was done with reference to British subjects should be on sound lines so that no harm would follow if the same terms were granted to enemies.

With regard to policies on the lives of British subjects the points which he had in mind were partly on the lines which the opener had suggested. The first point was that a considerable demand had already been experienced for the maintenance of assurances notwithstanding the non-payment of premiums. There was no doubt that, in time of war, the most popular of the various forms of non-forfeiture arrangements was the system whereby a policy was kept in force by regarding unpaid premiums as lent on the security of the surrender value. He thought there was a strong case for imposing the universal application of that non-forfeiture arrangement as a first step towards meeting the hardships arising from war conditions. In some cases that arrangement was already contractual; in several areas it had been voluntarily conceded and in one area it had already been imposed. There would, therefore, be less inconsistency between one policyholder and another if it were to be applied universally. Moreover, it would be fair as between one policyholder and another in the same office. It was a mere accident that war caused one policyholder to lose contact and allowed another to maintain contact with his office. Any policyholder in touch with his office could borrow within the surrender value to keep his policy in force. It would probably be necessary to make an exception in favour of third party mortgagees, but that would be fair because a man who had borrowed from a third party had exhausted his surrender value just as much as if he had borrowed from his own office. He hoped that no one would quarrel with the use of the term 'surrender value' in describing non-forfeiture arrangements. He did not think it would be appropriate to use reserves as they were actually held, because such reserves included a safety margin which had been built up from past surpluses and therefore contained an element which was not really applicable to the affairs of an individual policyholder. A reserve which could be built up out of premiums might be appropriate but that would not be much different from the surrender value. Alternatively, a statutory surrender value basis on some reasonable scale might be imposed for that particular purpose. However that might be, the non-forfeiture system which he had suggested, universally applied, would give a measure of the period during which the office could be kept on risk (including war risk when the policy covered war risk) without injustice to other policyholders.

The most difficult part of the problem arose when the surrender value was exhausted. There was no doubt of the strength of the demand for liberal treatment of policyholders. Included in the conception of liberal treatment was the unconditional right to revive an assurance even if the life assured were dead. That demand was not mere sentiment on the part of the man in the street; it was put forward by people of standing who commanded respect in their own spheres of activity. It therefore had to be regarded seriously. Various solutions were possible. In his opinion the test of a solution was whether it was fair to other policyholders. In considering justice to policyholders it seemed to him that there was an inherent distinction between a case where the arrears exceeded the surrender value and a case where they did not. When the arrears exceeded the surrender value an unconditional right of revival gave the policyholder an extension of credit and that extension of credit would be used not only to hold the office to the risk on under-average lives but also to hold it to war risks. He found it difficult to see how those benefits could, in justice to other policyholders, be given in exchange for an eventual payment merely of the premium arrears at the policyholder's option. It seemed that something more should be paid. That 'something more' might be paid by the State, but he felt that without any injustice to other policyholders difficulties would be avoided if it were made payable by the body of policyholders whose surrender values were exhausted. If, after that, the State liked to reimburse certain policyholders, it could do so as it chose, and the life assurance fund would not be concerned.

What seemed to be needed was an authorized schedule of revival charges. The schedule could allow broadly for the different classes of policies and the different periods during which they had been in force. The charge would cover the cost of the risk for the period after the surrender value had been exhausted. That risk should be computed not according to the ordinary mortality but should make allowance for the actual experience, including any war risk incurred. The schedule could be authorized by the appropriate authority for a given territory and would apply to all policies issued by places of business in that territory. Those policies would thus form a group and the revival charges would reflect as well as possible the experience of that group when some idea had been obtained of what that experience had been. Such a method would be flexible and it would be practicable provided that the revival charge were not so high as to discourage revivals and thus enhance the option against the office. During recent years rates of premium for new assurances had increased and a useful range of revival charges was therefore available. If a policyholder paid the revival charge in cash he could be allowed easy terms for paying his ordinary arrears. That would still further tend to encourage revivals and to reduce the option against the office. The authorised revival charge would be deducted from claims in addition to the ordinary premium arrears. If in any case the appropriate revival charge proved impracticable (i.e. so high as to discourage revivals) then either the State could pay part of it or the result could be accepted as a danger signal indicating the impracticability in that area of adding by statute to the contractual liabilities of the life assurance fund.

As he had already said, various solutions were possible, but he had tried to indicate principles on which to meet the demand for revival rights by a general system which would be applicable in all areas, and which, being fundamentally sound, could be extended if necessary to enemies as well as to friends.

**Mr A. T. King, F.F.A.,** felt that the problem of the revival of policies on the lives of persons resident in enemy or enemy-occupied territory was not capable of satisfactory solution unless the various Governments concerned were prepared to ease the burden of insurance companies in order that the purely ethical viewpoint might be dovetailed into the actuarial. Without Government assistance it was difficult to see how uniformity of treatment could be applied and satisfaction given to all the parties interested, including the main body of policyholders who were not in enemy-occupied territory but whose interests were nevertheless involved. The extension to policyholders who were resident in enemy or enemy-occupied territory of the special scheme of maintaining policies in full force so long as the surrender value permitted, which was originally introduced to meet hardship cases involving pre-war home policies, was an effort by companies in the direction of a partial solution of the difficulty. Similar schemes of non-forfeiture were features of some companies' policies, but those schemes, however good they were, fell short of the ideal in the case of policyholders where there

had been an intention to renew but where war conditions had prevented it from being carried out, particularly where by the accident of time the surrender value was small and, with the lengthening of the war, had in consequence been used up. Also, such an offer to Indian policyholders who were in Burma or Malaya, and whose contracts did not contain that special non-forfeiture feature, might not receive the unqualified approval of the policyholder, particularly as according to Indian legislation—if the policy were governed by the 1938 Act—a reduced paid-up policy was provided on cessation of premium payment. The fact that business transacted in Burma was not subject to the Indian Insurance Act if premiums were 'ordinarily paid outside British India' tended still further to show how difficult it was to secure uniformity of treatment.

He thought, therefore, that a satisfactory solution was bound up with the question of how far Governments would be willing to safeguard companies against the option which would be exercised against them if the peace treaty were to contain provisions similar to those embodied in the Versailles Treaty. Complications arose on account of the method employed to keep the policy in force during hostilities. Taking the case of policies other than those effected through a local branch abroad, some had no surrender value while others benefited by the application of a maintenance scheme (either by special arrangement or in terms of the company's ordinary non-forfeiture arrangements), and for the latter the surrender value had in some cases been exhausted and not in others.

It seemed, therefore, that the amount of the compensation should be arrived at either by charging a 'risk premium' for the period from the date of lapse for all cases which had not been revived (including policies which had lapsed and where the life assured had since died), or by calling for the difference between the amount payable under the policy and the reserve in the case of those who had died, the reserve being either the valuation reserve or the reserve on an agreed basis. It seemed also that a further payment was strictly necessary if it were assumed that the health of an abnormal proportion of the lives under revived policies would have deteriorated. The only policyholders who might feel a sense of grievance would be those who decided against revival and who objected to the utilization of the surrender value for the purpose of providing cover. It would, therefore, be necessary for the companies to be legally protected in such cases.

With regard to policies effected through a local branch abroad, the problem was complicated by the introduction of local laws. One example was policies on the lives of persons in Burma effected through a branch in British India and subject to the 1938 Act. Some such policies might have been kept in force in terms of the Act for the reduced paid-up amounts; others would have been kept in full force in terms of non-forfeiture or special maintenance schemes. There again, if revival were to be permitted without evidence of health being furnished, companies should be compensated on the lines he had visualized and should be safeguarded where the surrender value had been used to keep the policy in full force.

**Mr R. E. White** said that in business life, and also he supposed in international life, precedent counted for much; he therefore looked at the Versailles Treaty with apprehension. So far as Governments were concerned, the years of the present war differed little in principle from those of the 1914–18 war, yet the results of similar Government post-war action might differ considerably. The effect of the Versailles clause had been twofold: it had enabled any enemy assured to claim payment of the sum assured less arrears of premium in the event of death before a date three months after the signing of the Treaty, or alternatively to obtain reinstatement of a lapsed policy on payment of arrears of premium irrespective of the state of health. There had been no similar obligation to compel the assured to pay the arrears of premium to the company; such an obligation would, of course, have been of little value.

That clause clearly destroyed the very principles of life assurance. It drove a hard, one-sided bargain. It might be that in the event the clause had not proved over costly. As a principle, however, it was extremely dangerous. The present circumstances were vastly different from those of 1914–18 and varied not only in degree but in kind. In the last war the only important territory involved was the country of Belgium, and the total interest at stake was such that the problem might have been rather academic. In the present war to list the countries involved would be to cover the whole of Europe, with minor exceptions, and part of Asia. Faced, too, with the additional burdens caused

by total warfare, involving mass murders, deportations, and deaths from our own bombing, a period of three months as a clearing-up time would probably be completely inadequate. If the problem were to be tackled by the overrun nations in the same spirit as in 1919 there might ensue a much longer period in which the assured could exercise anti-selection.

The incidence of a clause such as that in the Versailles Treaty might press hardly on some insurance companies, particularly those of Australia and Canada. Canada in particular was a vast territory with but a limited population, and as a result many of the Canadian offices had extended their quest for new life assurance outside their own country and in recent times had been active in Asia, in Hong Kong, Shanghai, Singapore, Malaya, Burma and the Philippines. All those territories had been overrun by the Japanese. The interest of the offices was extensive and represented a large amount at risk, the losses on which would have to be borne by a limited number of nationals. On no basis of logic could he understand why the burden of claims on the lives of enemy policyholders should be compulsorily borne by other policyholders. If the lives were their own nationals, then perhaps some appeal to sentiment could be made. It would be observed, however, that the Versailles Treaty did not protect the person who assured with his own national company but in effect only the enemy who assured with an Allied company. Ill-feeling might be caused if the widows of British men assured with British companies were to be told that had their husbands been fighting against us their claims might have been paid, but that as they had been fighting with us their policies would not receive such favourable treatment.

Yet there was evidence that that dangerous form of thinking still existed. Recently in Australia an Act had been passed which gave to policyholders who were called to the Forces extended insurance protection and rights of revival without any compensation to the offices. In the Canadian Trading with the Enemy Regulations there was a provision which, if accurately interpreted, meant that policies on the lives of enemies could not lapse. He had been informed by cable that as a result of representations by the Canadian Life Insurance Officers' Association a specific amendment had been made so that when an insurance policy lapsed all liability on the part of the company ceased. He was convinced, therefore, that it was necessary actively to resist any attempts to force companies into false positions and that if the problem were approached in a firm manner proper recognition of the basic principles would be given. It was imperative that no principle should be conceded because, although the cost might be of small moment to some, to others it might be substantial.

It was very important that the British Government should give no lead which might make more difficult a contrary attitude by the Dominion and United States Governments. That did not mean that they should merely attempt to stand by a legal right, which might be unwise, since the post-war world might be different in many respects from that of 1939 and if life assurance was to take its part it had to be prepared to solve its problems sympathetically and generously. Judgment should be reserved until the nature and extent of the problem were known.

He supposed that all policies contained some provision which would operate if a premium were unpaid. The common forms of benefit were (1) to hold the surrender value available, (2) to convert the policy into a free policy, (3) to advance the premiums automatically, or (4) to continue the policy as a term assurance for such period as the reserve would allow. Broadly speaking, the first two were to the benefit of the surviving policyholder and the last two operated to the benefit of the dying policyholder. The last two also would pass on the burden of war claims to the office. That was a right principle because if offices had continued issuing policies since 1938, when they at least had some knowledge of the probability of war, without protecting themselves, then they should meet any claim which arose. The first two methods were to the benefit of the surviving policyholder and therefore legislation would be needed if they were to be reconciled. It was necessary to approach the problem on the most liberal basis and to forgo thought of surrender or lapse profit. In many cases the surrender values granted were very low and showed substantial profit. For example, it might be possible, where the surrender value or free policy value was automatically granted, to utilize any excess of the accumulation of premiums less expenses and mortality strain over the surrender value to provide additional cover.

The opener had mentioned the difference between policies issued by a branch and

those issued by a head office. The position at Shanghai and Hong Kong was that companies operating there continued to accept premiums in local currency until April 1942 though they did not pay claims. In April 1942 the Japanese confiscated the business of the foreign companies, for what it was worth, and gave policyholders the option of taking the surrender value. Very few policyholders took that option, which presumably meant that acceptance of the surrender value in local currency was of no particular value.

Where policies had been issued in countries which had been under enemy domination it was likely that some measure of currency depreciation might follow. That would render more difficult the payment of arrears of premium if the policy was in one of the stronger currencies (pounds sterling, or United States or Canadian dollars), and under such provisions as occurred in the Versailles Treaty it seemed almost certain that the selection against the office would be increased. Though the incentive to collect the sum assured could perhaps hardly be increased, the desire to pay arrears of premium at greater cost would be less unless health had deteriorated.

He suggested that if, in spite of all that could be done, it appeared that some such provisions as were contained in the Versailles Peace Treaty were inevitable, then the Government of the country pressing for them should be asked to assume the burden.

**Mr A. Currie, F.F.A.,** pointed out that one of the difficulties of the problem was that technical enemies under the Trading with the Enemy Act comprised a large number of British nationals who happened to be in enemy territory when war broke out. He thought there was no doubt that everyone would wish that fellow nationals who had been caught in an unfortunate position and who were unable, through no fault of their own, to pay their premiums should be fully protected, and particularly dependents of any who had lost their lives as a result of the war.

As was well known, life assurance business was conducted by three types of company: the composite office, the proprietary office, and the mutual office. There was a danger, he felt, that in some quarters at least the first two types of office might be exposed to demands simply because they had shareholders who drew a modest dividend from the life assurance fund. The true effect of anything that might be proposed could best be seen by examining the position of a purely mutual office, where there were no funds other than those belonging to the policyholders. If it were assumed that all British nationals, who at the outbreak of war were in Germany or in territory subsequently occupied, were insured in the same mutual office and, further, that all the members of that mutual office were in the unfortunate position of having been caught in Germany or in occupied territory, a difficult situation would arise in the event of provisions similar to those of the Versailles Treaty being introduced, because the office would find itself in the position of having to meet claims without receiving the premiums. In those cases where the policy had a surrender value when the payment of premiums ceased, the office could afford to cover the risk for a strictly limited period of time. When that value was exhausted the office would, if compelled to pay claims without recovering the premiums, be forced into insolvency. That was a position which could not be contemplated lightly.

The speaker referred to the address given by R. D. Taylor to the American Life Convention in Chicago in which it was brought out clearly that the provisions of the Versailles Treaty had not been intended as a just and equitable solution of the problem; they had been included against the advice of a technical conference and they were reparation provisions directed against the Germans in the interests of the Belgians and, to a lesser extent, the French. It was a case of the heart running away with the head—to no purpose, as it transpired, owing to the inflationary policy adopted by Germany after the last war.

If, however, it were assumed that the provisions of the Versailles Treaty would be repeated, with regard to the reinstatement clauses in particular, there would be three types of case to be considered: (1) policies where claims would have arisen, (2) policies which would be reinstated by the payment of arrears, and (3) policies which, for a variety of reasons, the policyholders would not choose to revive. Those three types of case were inextricably bound up from the point of view of the financial stability of the insurance office, but if the third type were suitably dealt with the other two could be left to look after themselves. Everybody wanted to see justice done, and he suggested

that the cost should be a national liability. It would surely be possible for the Governments concerned to agree that life assurance policyholders should not suffer as a result of the war, particularly when the circumstances arose from causes beyond their control. In the United Kingdom there were already two measures directed to that end: the War Service Grant Committee, which gave grants to servicemen to pay their life assurance premiums, and the Far Eastern Relief Fund, which offered similar provision for the victims of Japanese aggression in the Far East.

Life assurance policies, of course, were not the only class of property which had suffered or which would suffer from the effects of the war, but if life assurance policies were to be singled out again for special treatment then there was no reason why the Government in each of the countries should not, by agreement, set up a general war relief fund, one of the objects of which would be to pay life assurance premiums in suitable cases on application by the individual policyholder. It was a very short step from that to suggest that if the Government could see its way to pay the individual policyholder, as it had already done in certain circumstances, it should be equally prepared to make a payment to the life assurance company on request if the policyholder did not take advantage of his option. That, of course, would be on the understanding that the companies would be compelled to maintain in force policies which had lapsed and for which no value was left. If the Government were not prepared to take that step, then it had no moral right to compel the offices to pay claims where policies had lapsed, thus throwing a liability on the other policyholders. To do so would be passing on what should be a national burden, very light in comparison with the total cost of the war, to the shoulders of a limited class of people on whom it might sit very heavily. The laws of most countries required that life assurance offices should conduct their business in accordance with actuarial principles; the Governments should therefore see that nothing was done which conflicted with those principles.

**Mr C. F. Wood** said that he had made certain investigations and had proved to his own satisfaction a theoretical point which had certain practical implications. If a number of policies with a non-forfeiture provision of the 'premium loan' type had to be maintained in force after the debt exceeded the surrender value and if the expenses, mortality and interest experienced were the same as those allowed for in the premiums, the cost of granting extended cover for the sum assured less the debt at a time after the debt had exceeded the surrender value was the same whether it was calculated as the actual amount which the office had to pay in claims or as the excess of the debt over the surrender value at the end of the period of cover.

The practical implications were: (1) if all the premiums on all the policies were resumed for a period sufficiently long for the surrender value to exceed the debt, no compensation was required, (2) if appropriate compensation were paid to the credit of the policyholder's loan account, the debt on a policy would not exceed the policy value and there would be an inducement to the policyholder to resume premiums after the cessation of hostilities.

In arriving at a practical solution to the problem there were three essential requirements: (1) that there should be no variation in the terms of any policy without the consent of the policyholder; (2) that there should be adequate inducement for surviving policyholders to resume premium payments, thereby minimizing any possibility of selection against the office; (3) that compensation should be paid to the credit of the policyholder and not to the general funds of the office. Government control in many parts of the world was increasing and any arrangement that would give Governments an excuse for greater control over companies was to be deprecated strongly. If those three points were accepted, it followed from the first of them that there would be two different solutions corresponding to the two main types of non-forfeiture provision in current use, viz. automatic paid-up policy (either immediately a premium was unpaid or one year later), and automatic 'premium loan'. There was a very good reason for not interfering with the terms of a policy with a non-forfeiture provision of the paid-up policy type. The policyholder had an increasing surrender value and as it was hoped that most of the policyholders would survive, the interests of the surviving policyholders should be protected. If the Government decided that a policyholder with that type of provision was to receive more than the contractual paid-up policy, the balance should be made up by a direct payment from the Government to the policyholder's

representatives. The policyholders who survived should be given the option of renewing their policies without evidence of health, either by payment of arrears or by advancing the inception date of the contract for a period equal to that during which premiums had been unpaid.

In the case of a policyholder with a non-forfeiture provision of the 'premium loan' type, cover could be given after the debt had exceeded the surrender value provided collateral security was available to cover that part of the debt which was unsecured. If the Government were to provide that collateral security and reserve the right to withdraw it when the surrender value again exceeded the debt, there would be no inducement for the policyholder to resume premiums. The policy would, at the date of the resumption, have a negative surrender value and it would be some years before the surrender value exceeded the debt. If there were many lapses, as seemed probable under such conditions, the Government would lose the collateral security in any case. There had already been cases during the present war, when on account of hardship, the Government had paid the whole of the premiums for an individual policyholder and there seemed no reason therefore why that portion of the premiums represented by the amount of the unsecured debt should not be paid in deserving cases. The result would be that the policy would never have a negative surrender value and the policyholder would have an inducement to resume premiums when he was in a position to do so.

The solutions which he had put forward for the two types of non-forfeiture clause covered the three requirements he had suggested, namely, maintenance of contractual rights, adequate inducement for revival, and payment of compensation to the policyholder's credit.

**Mr J. F. Bunford** thought it was agreed that the problem under discussion arose, as far as Europe was concerned, primarily in the Channel Islands and in France, and, as far as the Japanese sphere of influence was concerned, in Burma, Malaya and the East Indies generally. United Kingdom offices had quite a fair stake in the latter countries but the Canadian and Australian offices had a far larger one.

He thought that in many cases there was room for doubt as to which country's law would govern a given contract if different countries dealt with the problems in different ways. He therefore suggested that the solution to the problem was that all the countries concerned (which really meant the United Nations or the majority of them) should agree on a common procedure and that in some way or other they should enact that, for lapsed policies on the lives of United Nations nationals who had been prevented from paying their premiums through the occupation of territory by the enemy, a certain appointed date or dates, according to the part of the world in which the person was, should apply as 'extended' dates of cover and for revival of those policies, and further that all existing non-forfeiture regulations included in the policies should be cancelled if they were in conflict with that principle. The cost of the concessions would depend upon the particular form of non-forfeiture regulation, which he thought in the majority of cases was that which amounted to an automatic loan of the premiums up to the amount of the surrender value.

If the period of cover were extended, one of three things could happen. During the period of extension beyond the time when the normal surrender value ceased to cover arrears of premiums the policy might become a claim, in which case the sum payable would be paid subject to deduction of premiums; or the policy might be revived, in which case again the premiums would be paid; or the policy might not be revived, in which case the office would not receive any payment for the risk it had run in continuing the cover beyond the time when the surrender value had become exhausted. The cost of the cover could be measured as the increase in the accumulated arrears between the date when the normal surrender value was exhausted and the 'extended' date, less the increase in the surrender value during that time, or, more simply, as the difference between all the accumulated arrears since the last premium was paid in cash and the surrender value at the 'extended' date. When the two factors involved, surrender value and premiums, were used in the determination of the cost, the problem immediately arose that they both varied tremendously between offices.

He felt that if there were to be compensation then there should be uniformity of compensation, by which he meant that two similar policies taken out with different offices should not have different compensation because one office had a more favourable

surrender value basis than the other or because their rates of premium were different. He therefore suggested that uniform bases of surrender values and premiums should be adopted for the purposes of ascertaining how long the policy could be maintained by its surrender value and of determining the compensation. The question next arose as to what those bases should be. Looking at the surrender values of about thirty United Kingdom offices he had found that there was very little degree of variation from the mean except in one or two isolated cases, and that, for the shorter durations involved in the problem, the means of the values were followed closely by the surrender values of one old-established office which still used the $H^M$ table as its basis. Canadian surrender values generally were higher and he had left them out of consideration, although if the suggestion which he had in mind were adopted it would be necessary to give proper weight to them.

The problem of the premium was more complicated because there was wider variation between offices, and during the years preceding the war there had been considerable variation of premium tables even within a given office; nevertheless, he thought it should be possible to lay down a table of non-profit premiums. With regard to with-profit policies, there were, generally speaking, higher premiums to be accumulated and the surrender values would normally include some allowance for interim bonuses year by year; those two factors largely counteracted one another, particularly when dealing with the differences between surrender values. With reference to declared bonuses, the policies under discussion were, by the nature of things, of short duration and the difference arising out of the value of declared bonuses was not likely to be considerable in relation to the problem as a whole. He therefore suggested that with-profit policies should be dealt with exactly as if they were non-profit policies.

The procedure would be that when the 'extended' date had been determined for any given part of the world a table would be prepared showing the compensation per £100 policy according to date of entry, age at entry, term (for endowment assurance or limited-payment whole-life assurance) and the number of premiums actually paid in cash. An argument in favour of uniformity was that it would be easy of application for Government officials without actuarial knowledge, and obviously ease of dealing with the matter was a prime necessity.

With regard to the all-important question as to where the cost should fall, it was impossible at present to estimate the probable cost of the concession and it might turn out to be small compared with other burdens borne by offices, but if it should be considerable it was clear that the burden should not be borne by the particular section of the community comprising only policyholders in companies with business in occupied countries. He felt that the burden should be more widely spread, and that the problem might be properly regarded as one for the community of the country in which the head office of the insurance company concerned was situated, or possibly for the community of the occupied country, or, in a still wider sense, as part of the rehabilitation problem with the security that was to be provided under the Atlantic Charter; in other words, it might be a United Nations problem.

**Mr L. M. Butt** said that he was in general agreement with the remarks of the last speaker. In order to examine the question of any loss which might fall on the offices and the question of appropriate compensation, he had assumed a surrender value basis which, whilst generous to the policyholder, ought not to involve the insurers in any loss; and he had found that in the case of a twenty-year endowment assurance policy on which three years' premiums had been paid, approximately a further six years' premiums could be advanced against the security of the increasing surrender value. He believed that the great proportion of the business likely to be involved was of the endowment assurance type and that the average term would not be greatly different from twenty years. If, therefore, offices were required to deal with premiums in arrear by advancing them against the security of the policies, an unsecured loan forming a potential loss would in general not be sustained (provided the war ended in a reasonable time) except in those cases where one or two premiums only had been paid in cash. Where one year's premium only had been paid, the loss, after a further six years, would in the case of a twenty-year endowment assurance be about 8 % of the sum assured. Where two years' premiums had been paid, it would be about 3 % of the sum assured. It seemed, therefore, that an office which had written annually new business to the extent of £100,000

sums assured, on lives subsequently becoming enemies and unable to pay their premiums, would not be in danger of sustaining a loss of more than about £10,000. Though the actual loss might in the case of some offices be material, it seemed to him that it would be small when compared with many of the losses directly or indirectly forced on offices through the war, and not one which was likely to be of real importance to any office relative to its resources.

Before, therefore, making strong representation to the Government for compensation, it would be necessary to make sure that the amount involved really justified the risk attaching to such a course. It might well be that the price of compensation would be an increase in Government supervision and control of life assurance business. Whilst individual offices would doubtless be prepared to deal very generously with policyholders, he thought that no general solution should be suggested to the Government which violated actuarial principles. The position of offices would be safeguarded if any such suggestion came in the first instance from the Government.

**Mr W. Penman** thought his first point would perhaps be rather unpopular. It was that a policyholder was a policyholder, whatever his nationality might be, and that any discrimination on the part of an office between one policyholder and another on the ground of nationality would be quite improper.

They were mainly concerned with their own country and with contracts which came under British law, but essential ingredients of any scheme were that it should be simple and, as far as possible, capable of being applied in principle to contracts subject to the laws of the Dominions and of other countries.

He thought he could draw up a one-clause Act of Parliament which would cover the majority of cases. If he were to make that attempt, he would try to arrange that at the point where the person found it impossible to remit his premiums on account of being involved in enemy territory all the existing non-forfeiture clauses in the policy would be cancelled and that a substituted statutory clause would be deemed to be inserted. The Act of Parliament would consist mainly of the clause to be substituted. The statutory clause would provide for the cessation of normal premiums and for the substitution of a term premium, and it would also be provided that the term premium should be charged against the surrender value at the point of time when the substituted clause came into operation. It might be wise to provide for a uniform statutory scale of surrender values.

That would leave two points to be dealt with. The first concerned what was to happen when the period during which the term premium had been running had come to an end. In the case of an endowment assurance, he thought the appropriate course would be merely to leave the premium unchanged and to extend the term. In the case of a whole-life policy the appropriate course would be to increase the premium to that according to the original scale for an age as many years advanced as the term assurance had been running. There would, of course, be a few policies of very short duration which would lapse under such a scheme, but he thought offices could afford to give the Government of the day an undertaking that those few cases would be dealt with generously. Secondly, regarding bonuses, the right to participate in bonuses should be suspended for the period during which only the special term assurance premium was charged.

He thought that the problem had to be dealt with on broad lines, perhaps not too closely wedded to actuarial principles. The scale of term assurance premiums would have to be one which did not take account of war mortality and it would have to be kept very low; there would be little margin in it for expenses, so that the premium would not be much more than $q_x$. No interest should be charged but the term premium might be applied to the sum assured instead of to the amount at risk.

The scheme he had outlined was in some respects not unlike that suggested by Mr Hickox.

**Mr W. F. Gardner,** in closing the discussion, said he thought the essence of the problem was to get a workable framework ready to be applied as soon as it became necessary. He felt that in everybody's mind was the wish that, subject to the due interests of other policyholders, those unfortunates who had found themselves in enemy occupied territory should receive the most sympathetic consideration.

As to the history of the Versailles Treaty, the initial approach to the problem was

unsatisfactory, the closing phases of the discussions were more unsatisfactory, and the Treaty itself was most unsatisfactory. It was clear that at the time of the Treaty all consideration of business issued from branches overseas had been excluded, so that the essential issue with which they were now concerned had not then arisen.

The question of the treatment of real enemies as compared with technical enemies had been discussed by several speakers; he thought that the answer might well depend on larger issues than those with which they were particularly concerned.

He agreed that the central problem was that of policyholders in territories which were occupied and in which business was not being administered, though he did not overlook the problem which might arise where insurance was being administered otherwise than in accordance with local laws, nor the fact that there might be certain policyholders in those territories in similar straits to those in territories where business was not being administered at all. The central problem was bounded by the terms of the contract, the rate of interest earned, the duration of the occupation of the territory, the extent to which loans already existed on the policy (remembering particularly that heavy loans might have been granted just before the occupation), the rate of mortality both during and after the occupation, the expenses involved, and, last but by no means least, the degree to which revival might operate against offices. Of all those factors it might be that only the terms of the contract were at the present time known. It was therefore clear that all discussions had to be exploratory in character. Yet time pressed, and a not unimportant part of the problem was to prepare a plan which could be applied as soon as practicable after the territory was freed.

It was very natural and proper that so large a part of the discussion had dealt with individual contractual rights, particularly in regard to non-forfeiture. Those were necessarily the first steps in any exploration of the problem, but they led to the inevitable conclusion that the newer policyholders could not be covered for long enough and that nearly all policies would be burdened after the occupation with considerable arrears which would have accumulated and which would moreover continue to accumulate. Unless there was to be some scheme of direct State assistance to policyholders such as had been suggested, whereby they would be enabled to pay premiums themselves, it seemed probable that few would be able to meet the arrears in cash. He had considerable misgivings when he contemplated the vast number of individual calculations which would have to be made, the vast number of policies which would be burdened with arrears, and the difficulties of revival if strict adherence to individual contractual rights were observed. Those misgivings applied equally whether the calculations were made in order to establish the maximum period for which cover could be granted, whether they were made in order to establish the burden on the office in keeping the policies in force during the whole of the period of the occupation, or whether they were made to determine the amount of compensation which the office might claim.

Many varied views had been expressed about compensation and he had found as he listened to them that he agreed with each in turn. It was a very difficult subject indeed. If compensation had eventually to be considered it seemed that, in spite of the advantages which had been pointed out of crediting compensation to individual policyholders, it would essentially be a matter to be dealt with in bulk and on relatively simple lines. The problem of policyholders in occupied territories was different from that of individual hardship cases in unoccupied territories, since it possessed the essential feature that, apart from individual cases where relatives might have paid premiums on behalf of policyholders, all policyholders were affected in the same way in having been unable to pay their premiums. That consideration might well be the justification for those speakers who had suggested the much broader lines of approach, which he welcomed. It might be necessary to deal with the complication of many individual calculations, but so far as the public and the Government were concerned he thought that if it were possible the final solution should be on relatively simple lines.

Life assurance would be needed again in occupied territories and, if offices desired to re-establish their business there, the process would be greatly facilitated by simple methods leading to simple administration and to a ready understanding and acceptance of the scheme by policyholders, particularly with regard to the question of revival. Moreover, the advantage of reviving old policies as compared with the expense of writing new contracts, very largely on the same lives, should not be overlooked.

Insurance was rather a complicated business. It was complicated not only in its

mathematics but in its administration. Actuaries, whilst having absolute equity as their ideal, were constantly faced with problems in which they had to decide what was the maximum practicable degree of equity to which they could attain. He thought that in times of war their conception of equity might well, in the public interest, be broadened. Indeed, he thought it was inevitably broadened, as had been shown by the opener in his reference to practice immediately before and during the war.

Whilst it was his hope that a relatively simple plan might be evolved, perhaps on lines which had been suggested by previous speakers or perhaps on other lines, he had to utter a warning. Once individual contractual rights were departed from, there came into play such matters as the average duration of all contracts in each branch in each office, the proportion of with- and without-profit contracts, the conditions under which profits might be allocated (particularly as to whether profits might be varied as between one territory and another), and other far-reaching factors which would vary considerably, not only as between different offices but as between different occupied territories and between the different countries in which the head offices were situated. Very considerable amounts might well be involved in the problem and no solution should be enforced until the most careful consideration had been given to its effect upon each office concerned. The circumstances of the problem were exceptional and it seemed that a satisfactory solution was most likely to be found in a broad war-time view of equity by actuaries, matched with the closest recognition of actuarial principles by legislators, and aided by the goodwill of both.

**The President (Mr H. E. Melville)** expressed the thanks of the members to Mr Clough for opening the discussion. He also expressed their acknowledgment and thanks to the Life Offices' Association and to Mr Shrewsbury for putting at their disposal the very interesting and useful memorandum giving the history of the decisions made twenty-five years ago. It was in the light of those decisions that they had been discussing the present-day problem. He felt that those who would have to deal with it on behalf of the offices would be able to get some guidance and assistance from the discussion which had taken place that evening.

It was the desire of everybody to help the hardship cases which had been discussed, but it was obvious that at one stage or another there would be a financial burden to be faced. If it were felt ultimately that a claim for compensation should be made against the Government he thought that care should be taken to see that the claim was reduced to a minimum and that it was fully substantiated in every way.

One fact which he had in mind had not been referred to during the discussion. In the last war in some countries people had completely disappeared, and offices with business on their books had found themselves with a reserve in hand against which no claim had ever been made. That might happen again in the present war, and if so it did not seem to be unreasonable that adventitious profits of that kind should be set off against any financial burden thrown on the offices.

**Mr W. H. Clough,** in reply, said that Mr Gardner's admirable summing-up of the discussion left very little for him to say. There had been a much greater homogeneity of opinion as to the solution than he had expected. The tentative suggestion which he had made differed from the possibly much more practical one set up by Mr Penman of overriding the contractual regulations at the point of time at which the paying of premiums ceased. If it were possible to enact that at that point of time every policy should be treated uniformly, then he thought it was better than his suggestion that the temporary cover should commence from the date at which the surrender value was exhausted, but he wondered whether, legally, the contractual regulations could be overridden at that point.

With regard to the question as to where the cost should fall, one suggestion which had not been mentioned during the discussion was that the defeated Governments might pay for those of their own nationals who might otherwise suffer. The suggested solution was that if the offices could not meet the cost, the British Government should bear it. He felt it was essential if a request of that type were to be made, or even if it were not, that there should be agreement between all the Governments involved. The Indian Government should not be forgotten. There were already promises being made by the Indian offices as to what they were going to do with regard to meeting claims and with

regard to revival. Therefore the Indian Government should be approached if any question of overriding the contractual regulations were contemplated.

If compensation were forthcoming from the Government, he agreed that it should be a minimum. He thought it was a dangerous precedent in any event, but it was preferable that it should come to the company by way of the policyholder's pocket. It would be much easier, particularly when dealing with offices which were proprietary, to interpose the policyholder between the office and the source of compensation. If that were done, the idea of compensation might be more acceptable to public opinion.

He was interested to observe that a number of speakers had differentiated, as he had tried to do, between the essentially different problems of a branch operating in occupied territory and of a head office which was not operating in that territory but issuing policies over frontiers. He felt fairly certain that branches in territories such as France and the Channel Islands had continued to accept premiums and to pay claims. Their problem was not the problem under discussion.

Mr Gardner had referred to the desirability of offices continuing to conduct business in the territories which were being discussed. That would have a large bearing on the solution. Apart from the desirability of preserving the goodwill of the office, it was necessary in fairness to policyholders to act in a generous manner. He suggested that the next task of the offices of the United Kingdom and of the Dominions was to form an estimate of the real magnitude of the problem and to decide how far it could be solved without Government intervention.

Time was short. A hurried solution at the end of the war was the last thing which anybody desired. If they set their minds immediately to the practical issues a satisfactory solution could be found.

## VERSAILLES TREATY OF PEACE—LIFE ASSURANCE POLICIES

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A Committee known as the Enemy Debts Committee (Chairman, Sir Henry Babington Smith) was appointed by the Treasury at the end of 1916 to report on arrangements to be adopted to safeguard British financial interests during and after the War (1914–18).

Evidence was furnished on behalf of The Life Offices' Association and The Associated Scottish Life Offices at a Meeting of the Enemy Debts Committee held on 21 March 1917. A joint memorandum setting out the Recommendations of the Associations prefaced by a statement of the Basis of those Recommendations was lodged with the Enemy Debts Committee.

### A. *Basis of recommendations*

1. It was essential that the credit of British assurance companies should be maintained.

2. British life offices desired to deal equitably with policyholders and representatives of such policyholders who had acquired interests in policies, bona fides, before the war. They had no desire to claim benefit, as against such policyholders, of any forfeitures, etc., arising under Common Law or Special War Legislation or Proclamation—i.e. they desired fulfilment rather than evasion of contracts.

3. There should be complete reciprocity between allied life offices and enemy life offices.

4. They were concerned only with life assurance policies issued in Great Britain and Ireland and subject to jurisdiction of British courts.

5. In the case of life assurance policies issued through properly constituted branches in enemy countries it was left to the offices concerned (relatively few in number) to place their views before the Enemy Debts Committee.

6. They stressed the unique nature of life assurance policies (policyholder having option to renew or not) and emphasized that neither of the two following methods was applicable:

(i) To regard the contracts as dissolved by declaration of war (this would be inequitable to policyholders even if surrender values were granted).

(ii) To regard the contracts as suspended (this would be inequitable to assurance companies as the health of the life assured might have seriously deteriorated).

7. British life offices should not be obliged to do more for the policyholder than is indicated above, but were to be left free to treat each case on its merits and to grant more favourable terms should they so desire.

### B. *Recommendations*

'1. If premiums have been paid or tendered and the express conditions of the policy have not been broken; or

'If it be proved to the satisfaction of the office that the assured being able to pay and desirous of renewing was legally prohibited from doing so and all other express conditions of the policy have been observed;

'(i) That, subject to the deduction of arrears of premiums (if any) with interest, companies shall not be debarred from admitting claims that have arisen since the declaration of war whether they have arisen from

'(*a*) Death due, directly or indirectly, to taking up arms against the allies;

'(*b*) Death from other causes;

'(*c*) Survival to a specified date.

'(ii) That all other policies may at the option of the office be reinstated on the declaration of peace irrespective of the condition of the health of the assured, subject to the payment of arrears of premiums (if any) with interest.

'2. If the premiums have neither been paid nor tendered and the assured or his legal representative is unable to prove to the satisfaction of the office that the assured, being able to pay and desirous of renewing, was legally prohibited from doing so; or

'If the express provisions of the contract (other than the condition as to payment of premium) have been broken;

'(i) That in the event of the risk having emerged during the war, either by the death of the life assured or his survival to a specified date, the surrender value be paid.

'(ii) That all other policies may at the option of the office, within a time limit, either be reinstated subject, however, to the production of such evidence of good health as may be required by the office and to the payment of arrears of premium with interest, or a surrender value be paid.

'Life reassurances and reassurance treaties with enemy countries, if, in fact, any exist, are unimportant so far as British life offices are concerned and the associations have no recommendation to offer.'

In October 1917 a Technical Conference of Allied Delegates was held in Paris. The Belgian delegate 'urged that insurance contracts should be completely upheld without any suspension, since Belgians were generally insured with German companies'.

The recommendations of the Conference were, however, as regards life assurance business:

'...those companies which have continued during the war to cover the risk for the benefit of enemy insured ought to be enabled to claim from the latter, if necessary by judicial process, the amount of the premiums unpaid during this period. Where an insured, on account of the war, has not fulfilled the conditions of his policy, more especially if he has not paid his premiums, and if he has thus lost all right to claim under his policies, he ought nevertheless to have the right to claim from his insurer after the war the surrender value of his policy as at the date of lapse, the insurer having at the same time the option of allowing to the insured more favourable conditions according to circumstances.

'Those insured who, on account of invasion of their country, have been unavoidably prevented from paying their premiums, ought to be able to claim from their enemy

insurer the revival of their contracts on payment, either immediate or deferred of the premiums.

'Reinsurances...shall be maintained in force until the extinction of the reinsured policies.'

In March 1919 a Draft Convention as to Pre-War Contracts, issued from Paris, was forwarded by the Hon. M. M. Macnaghten—Director, Foreign Claims Office—with a covering letter in which he stated that the draft 'appears to carry out the recommendations of the Enemy Debts Committee'. The clauses provided

(*a*) That contracts of life assurance should not be deemed to have been dissolved by the outbreak of war or by the policyholder becoming an enemy.

(*b*) That any sum that during the war became due under such a contract should be recoverable after the war.

(*c*) That where a contract of life assurance had lapsed during the war by non-payment of premiums, or had become void from breach of conditions, the assured would be entitled to claim a surrender value.

(*d*) That where the insurer remained bound by the contract, notwithstanding the non-payment of premium, until notice had been given to the insured of the termination of the contract, the insurer should be entitled to recover the unpaid premiums where the giving of such notice was prevented by the war.

(*e*) That a contract of life assurance entered into by a local branch in an enemy country shall in the absence of a stipulation to the contrary in the contract itself, be governed by the local law, but the insurer shall be entitled to demand from the insured or his representatives the refund of sums paid on claims made or enforced under special legislation enacted during the war not in accordance with the contract itself nor consistent with the laws or treaties existing when it was entered into.

The Life Offices' Association informed Mr Macnaghten that the clauses carried out the recommendations made in their evidence given before the Enemy Debts Committee on 21 March 1917.

In April 1919, Mons. A. Bégault in his capacity of Belgian delegate at the Conference of the Preliminaries of Peace requested The Life Offices' Association to agree to authorize the British delegate in Paris, Mr H. A. Payne, to accept an amendment as follows:

'All provisions of forfeiture which would have been or would be enforced by a company against an assured who had become an enemy will be annulled without reserve on paying premiums eventually due.'

The Life Offices' Association informed Mons. Bégault and Mr H. A. Payne that they were unable to support the amendment and followed this up with a strong protest against it. The Associated Scottish Life Offices also made a separate protest.

It was subsequently ascertained that all the delegates at the Conference, except the British delegate, agreed to the amendment and it was incorporated in the Peace Treaty.

The relevant clause is No. 11 of the Annex to Section V set out in the Schedule to the Treaty of Peace Order, 1919 (Statutory Rules and Orders 1919, No. 1517) which is as follows:

*Life insurance*

'11. Contracts of life insurance entered into between an insurer and a person who subsequently became an enemy shall not be deemed to have been dissolved by the outbreak of war, or by the fact of the person becoming an enemy.

'Any sum which during the war became due upon a contract deemed not to have been dissolved under the preceding provision shall be recoverable after the war with the

addition of interest at 5 % per annum from the date of its becoming due up to the day of payment.

'Where the contract has lapsed during the war owing to non-payment of premiums, or has become void from breach of the conditions of the contract, the assured or his representatives, or the persons entitled shall have the right at any time within twelve months of the coming into force of the present Treaty to claim from the insurer the surrender value of the policy at the date of its lapse or avoidance.

'Where the contract has lapsed during the war owing to non-payment of premiums, the payment of which has been prevented by the enforcement of measures of war, the assured or his representative or the persons entitled shall have the right to restore the contract on payment of premiums with interest at 5 % per annum within three months from the coming into force of the present Treaty.'

On 28 February 1920, a joint letter from the Chairman of The Life Offices' Association and the Associated Scottish Life Offices was sent to Mr H. A. Payne (Board of Trade) dealing with the provisions of the Treaty of Peace and of the Treaty of Peace Order, 1919.

The letter pointed out, inter alia,

1. That the recommendations relating to life assurance contracts agreed to by the Inter-Allied Assurance Conference in the autumn of 1917 and set out in a Draft Convention were subsequently departed from, in spite of protests, and provisions were inserted in the Treaty which imposed heavy and inequitable burdens on life offices, namely, the liability to pay the full sum assured and any bonuses under lapsed policies where death had occurred between 4 August 1914 and 10 April 1920, and the liability to reinstate during the same period any policy even on an impaired life and notwithstanding the fact that all intention of maintaining the policy in force might have been abandoned at the date of discontinuance of the payment of premiums.
2. That the option was entirely against the life offices as they were unable to claim payment of arrears of premiums in all other cases of lapse.
3. That it might be assumed that the option to renew would always be exercised when it was against the office.

### *International Law Association*

In December 1929 a Committee of this Association under the Chairmanship of Mr Vaughan Williams, K.C., asked the British Insurance Association for their views concerning appropriate rules for insurance contracts in time of war and the British Insurance Association obtained the views of its sections.

Views not applicable to policies issued through a foreign branch or agency and subject to foreign jurisdiction:

L.O.A. Life contracts should remain in force subject to payment of premiums to a neutral body or to a Government Department and should at the end of the war be handed to the Insurer with accumulated interest, due regard being had throughout to the currency of the contract and to other policy conditions.

A.S.L.O. Stressed inequity of Versailles Treaty. Apart from the question of option against the Offices it is inconsistent with hostilities to offer an enemy the advantage of having his assurance protected during the war. If general principles are to be laid down the principle should be maintained that life assurance contracts are dissolved by war subject to the liability of the office to pay the value of the policy at the date of cancellation and without prejudice to (*a*) the right of the parties to arrange between them for revival and (*b*) the right of the office to make an ex gratia payment in respect of a policy which is not revived.

The Rules adopted by the International Law Association in 1932 were:

5. Life insurance.
   (*a*) These should remain valid and in force in accordance with their terms and subject to the provisions of paras. 7 and 8 hereof.

7. Payment under insurance contracts.
   Subject to the provisions of Rule (7), payments falling due under contracts of insurance, whether accrued before the war, or, in accordance with these Rules, during the war, should be suspended until the termination of the war unless authorized arrangements are made for payment to or through a neutral body.
8. Formalities.
   No insurance claim should be defeated by failure to give notice or do any other act under the contract where such failure is attributable to the existence of a state of war.

The British Insurance Association informed the International Law Association on 30 June 1932 that the draft Rules did not follow the views of the British Insurance Association and that they could not accept responsibility for them.