

INDUSTRIAL ASSURANCE AND THE COLLECTING FRIENDLY SOCIETY TODAY

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INTRODUCTION

ALTHOUGH two papers on industrial assurance by K. J. Britt (*T.F.A.* 21, 265 and 26, 200) have been submitted to the Faculty of Actuaries in recent years there have been no similar discussions of this business at Institute sessional meetings. In addition, papers by G. W. E. Allaway (*J.S.S.* 13, 1) and by K. F. Gardner (*J.S.S.* 13, 22) have been published by the Students' Society, but in none of these papers have the particular problems of collecting friendly societies been fully considered. The industrial assurance funds of societies represent approximately one-fifth of all such funds in this country, and this paper is therefore intended to be complementary to those above-mentioned, to introduce current actuarial problems of collecting friendly societies, and to provide a vehicle for general discussion of industrial assurance.

POST-WAR AMENDMENTS TO LEGAL FRAMEWORK

2. A note on the Industrial Assurance and Friendly Societies Act, 1948, by Britt (*J.I.A.* 76, 164) deals with the effect of the Act upon the issue of funeral-expense policies following the introduction of a State death grant under the National Insurance Act, 1946. The £20 statutory maximum has now been increased to £30 by the Industrial Assurance and Friendly Societies Act, 1948 (Amendment) Act, 1958.

3. The 1948 Act also made, however, important changes in the limits imposed on the amount of assurances and annuities which may be issued to any one member by registered friendly societies. These amounts, fixed by the 1896 Act (as amended in 1908) at £300 and £52 per annum respectively, were increased to £500 for assurances and £104 per annum for annuities. Further, registered societies were empowered to assure money to be paid to a member on the death of a husband or wife either by whole life or by endowment up to the new limit, such power being previously limited to reasonable funeral expenses.

Table 1

Year (1)	Occupied population (m.) (2)	Earned income before tax (£m.) (3)	Average earned income p.a. (£) (4)	Number of years' income represented by current F.S. assurance limit (5)
1908	19.49	1,940	100	3.00
1938	22.66	3,543	156	1.92
1948	22.78	7,739	340	1.47
1958	24.07	14,346	596	.84

4. The changes mentioned in §3 went some part of the way to meet the effect of post-war inflation as it then was in 1948, but Table 1, derived from official statistics, gives some idea of the difficulties now confronting societies in preserving and expanding membership today. The average worker cannot now be assured with collecting societies for even one year's income, nor can he provide (except under the 1956 Finance Act) an annuity of one-fifth of his income. It has to be borne in mind that the total amounts of any statutory assurances taken out on parents or grandparents (up to £30 on each) reduce the £500 'ration' available to any member. Bodies representing leading friendly societies have recently made a fresh approach to the Government departments concerned for reconsideration of the current statutory limits, but the representations have not led to any promise of review.

No changes have, however, been made over the years in the main privileges of registered friendly societies, freedom from income tax and stamp duty applying to all assurance funds and policies. Nevertheless, the restriction of investment powers considerably affects these privileges today, and this is further considered in §§23 and 24. In the days when industrial assurance business consisted solely of whole-life contracts for small sums assured it might have been held that societies also enjoyed the advantage of simplified administration, but the reverse is true today. For example, complicated proposal cards must be used to ensure that none of the limits is infringed, including questions concerning other societies and requiring details of free paid-up policies and assignment of policies. The requirement of the First Schedule to the 1896 Act that the rules should provide for separate funds to be kept for each table of assurance adopted is almost impossible to implement literally, and although Form A.R. 10 recognizes some grouping of premiums where common management fund percentages apply, difficulties arise when introducing new types of table.

5. There have been two other Acts in the post-war era affecting industrial assurance to a limited degree, the Reserve and Auxiliary Forces (Protection of Civil Interests) Act, 1951, and the Friendly Societies Act, 1955 (with the corresponding Friendly Societies Act (Northern Ireland), 1957). These have both been dealt with and discussed in Britt's 1959 paper.

6. Section 26 of the Finance Act, 1956, enabled registered friendly societies to transact approved retirement annuity business for the self-employed and the non-pensionable, without regard to the £104 annuity limit. A cautious policy has necessarily been pursued on premium rates, in view of investment limitations and the lack of re-assurance powers. The maximum annual premium acceptable in this class of business at entry ages up to 40 years is £750. For an entrant aged 30 this would result in a pension-annuity, payable from age 65, of some £5000 per annum. Since the normal maximum sum assured in a collecting society on any one life is only £1000 (by two policies) it can be seen that a limited or abnormal distribution of such annuity business might lead to financial strain. One large society, whilst issuing such contracts in non-profit form, has agreed to distribute any true surplus arising by way of a once-for-all bonus on commencement of pensions, the mutual nature of membership for this purpose being thus recognized. Another society has linked the amount of pension payable with the price of $2\frac{1}{2}$ % Consols at the time of payment of the annual premiums.

Whilst results have been somewhat disappointing, a reasonable amount of new business has resulted from existing connexions.

DECLINING NUMBER OF COLLECTING SOCIETIES

7. Table 2 shows the number of collecting societies operating and the total industrial assurance funds held by them at the end of selected years.

Table 2

Year	Number of collecting societies	Industrial assurance benefit funds £ (000's)
1936	152	67,972
1946	138	123,832
1958	96	235,802

(The twelve largest societies held between them 97.5 % of the funds in 1958.)

The chief reason for the reduced numbers is that many very small local societies, writing insufficient new business at post-war premium rates, have found that inflation has increased their expense-ratios to

uneconomic levels. They have been well-advised—in many cases by their actuaries and also by the Chief Registrar—to consider transferring engagements to larger societies. In the case of one nation-wide society, the loss of the associated approved society business following the 1946 Act, and of many staff who transferred to the Ministry, was the cause of the transfer of engagements. Only one society has changed its constitution by converting to a 'mutual', and further reference is made to this in §32. Some of the problems arising from the acceptance of a transfer of engagements were dealt with in my remarks on Britt's 1959 paper, but it may be helpful to re-state the main points.

Although the expense ratio of the transferring society may have been mounting steadily, that does not necessarily mean that it is operating at a disadvantage to the members. In one society seeking transfer the expense-ratio exceeded 75 %, but the interest income, which was not subject to much expense, was greater than the premium income, and the funds were almost equal to the total sums assured. Very little new business is written and the membership ages rapidly. This does not offer much scope for development of new business to a society considering an acceptance of transfer, and it may well be that available business on younger members of the families has already been written elsewhere.

From the technical point of view the latest valuation report, which may have been made on a solvency basis, is only the starting-point for the actuary considering an acceptance of a transfer of engagements. In order to test the position it is probable that he will have to make two further valuations. First it is necessary to test the solvency of the society under conditions of the future, having particular regard to expenses, which should be lower after the debit has been merged. Then, if this shows that it is possible to guarantee the face value of all contracts, it is necessary to test the future bonus-earning power, in order to see whether the contracts can be allowed to participate in surplus distribution on the same terms as the larger society. For this purpose the valuation basis of the larger society would be used. In both valuations due allowance must be made for the expenses of take-over, including any compensation for loss of office, costs of advertisement of the transfer, legal charges and supervision of all the arrangements by officials of the larger society. The question of depreciation of asset values together with comparability of the strength of the investment reserve (if any) must also be borne in mind.

From the administrative point of view, it may be that no actual policies have ever been issued, and in this case it is desirable to issue some form of document after the transfer. All problems of ownership of policies should be settled when the business is inspected beforehand.

It must be remembered that separate records will be necessary, and that the business will always constitute an administrative inconvenience, since sums assured and levels of bonus on claims will always be different. It should be clear from the foregoing that such transfers are not actively sought by the larger societies.

The following figures show the methods by which the numbers of collecting societies declined by 56 between 1936 and 1958:

Dissolved by instrument	31
Dissolved by award	1
Converted to mutual company	1
Wound up	2
Transferred engagements	22
Ceased to be classified	1
Ceased operations	1
	<hr/>
Commenced operations	59
	3
	<hr/>
	56
	<hr/>

Most of the societies which dissolved were the smallest type of local society located in Lancashire and Cheshire, and many showed substantial actuarial surpluses at time of dissolution. The legal procedure to be carried out prior to a transfer of engagements is slightly less onerous than that required for a dissolution, in that the Commissioner has power, in the former case, to dispense with the full number of assents. In the case of a dissolution at least five-sixths, in value, of the members have to sign the instrument. The procedure for either course is, however, complicated, and is probably one reason still influencing local part-time secretaries in continuing some of the smaller societies which might be better advised to transfer their engagements. In no case of dissolution has the question of procedural difficulty been given as a reason for preferring dissolution to transfer.

EXPENSE-RATIOS

8. The expense-ratio is simply the percentage of total industrial branch premiums received represented by the total expenses charged to the industrial assurance fund. As a reasonable measure it can be challenged on the grounds, *inter alia*, that investment expenses (even for example those associated with running a large house purchase mortgage scheme) are included in the expenses, and that it makes no allowance for the proportions of new and renewal income. Further, as a comparative measure between offices it makes no allowance for the

distribution of weekly and monthly business which often affects the position, for investment policy, or for methods of funding pensions, etc. Nevertheless, as an index it has an historic claim to consideration, and Britt has given some interesting figures in Table 5 of his recent paper when discussing post-war trends. He shows that since 1948, after falling for many years, the average expense-level of companies has tended to rise slowly due to inflationary costs, whilst the average expense-level of societies has continued to fall, although still as high as 35.0% against the companies' 31.2% in 1957. It is interesting to consider the reasons for this.

9. It is probable that the remuneration of industrial assurance agents represents some 60% of the total industrial expenses, and for this reason the post-war period has been particularly difficult. Those offices that have partly or fully converted such remuneration to salary have been more vulnerable to Union pressure, and to awards by the Industrial Disputes Tribunal. In 1959 the Government felt that the particular circumstances which led to the setting up of this independent body had largely disappeared, and this tribunal has now ceased to function. The purely commission-paying offices (which include most collecting societies), although able to show that the agents have automatically kept up with inflationary tendencies through the increasing size of post-war premiums, have nevertheless had to recognize the continuing service of policies for premiums at pre-war rates, and have made minor concessions, usually without disturbing basic commission rates. The situation has also been met by reducing the numbers of agents (without creating redundancy) and increasing the size of debits by 'blocking' or concentrating in areas, this being helped by the fact that the total number of policies currently being serviced shows a slight decline, due principally to the continuing 'swing' of new business from whole-life weekly to endowment assurance monthly.

10. It is easier to measure the effects of different proportions of new business, and of weekly to monthly business in a collecting society, because the percentages of new and renewal premiums allowed for in premium calculations have to be certified by the actuary, and are shown each year in the transfers made to the Management Fund on the Annual Return (Form A.R. 10) to the Chief Registrar. Table 3 shows the resultant expense-ratios on varying distributions, on the over-all assumption that new weekly income is 7½% of total weekly premium income and that new monthly income is 12½% of total monthly premium income.

In some societies additional allocations are made out of valuation surplus to staff, for staff pensions or for management expenses, and the

Table 3

Percentage of premium income arising from		Expense-ratio if percentages of premiums set aside for management are				
		1st year	Subsequent	1st year	Subsequent	
Weekly business	Monthly business	Weekly ...	75	40	70	35
		Monthly...	70	22½	65	20
60	40		37.0		32.8	
50	50		35.5		31.6	
40	60		34.1		30.4	

above figures would need suitable adjustment. It will be seen that although there is useful scope for reduction of expense-levels reading vertically, there is naturally even more scope reading horizontally. This would inevitably mean lower levels of collecting commission, and can only be achieved by agreement with agents' Unions if it is possible for the society to extinguish 'book-interest'. Several societies are in process of achieving this, and some of the problems associated therewith are dealt with in following paragraphs.

ELIMINATION OF BOOK-INTEREST BY PURCHASE

11. The Cohen Committee in 1933 took the view that book-interest was 'the capitalized value of the excess of the agent's commission over the market value of the services he renders', but the Beveridge report 10 years later admitted that 'it can be compared with equal plausibility to the goodwill of an insurance broker's business'. Any 'excess commission' could only be advanced as an argument in respect of weekly whole-life business where 25% has commonly been paid. The rate of renewal commission on monthly business in book-interest offices is usually of the order of 10%, which is not very different from the remuneration, by whatever method payable, of other industrial offices. It is noteworthy that the company which at present has the largest premium income under a book-interest system has also the lowest expense-ratio—simply due to a very high proportion of monthly business. The collecting societies, however, all have a much higher proportion of weekly business than the companies (some of the smaller societies indeed transact no monthly business) and this has no doubt arisen through their early development from local burial clubs. It certainly does not follow, however, that the whole of any commission reduction would represent savings, since other expenses will probably increase in the absence of book-interest.

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12. Two factors contributed largely to agreement by agents' Unions to the ending of book-interest in certain societies:

(a) The rapid post-war increase in debits due to inflation, leading to much higher purchase prices of books, and consequently to larger deposits of capital from newcomers. The larger loans required exhausted supplies of capital in finance companies.

(b) The over-full employment situation, leading to vacant books, and waiting periods before moneys were received by outgoing agents.

In considering whether to recommend to the members of a society that money should be spent to extinguish book-interest, the likely rather than the possible savings in future expenses must be carefully assessed. Where commission rates are to be reduced, larger debits must become available to new agents, in order to produce suitable living standards, and the business on those debits must be situated within limited areas over which a weekly 'home-service' by agents is a possibility. These conditions are particularly difficult to achieve in rural areas, where it may be necessary not only to guarantee initially some minimum earnings whilst debit is being built up as it becomes available, but also to make an augmented weekly payment based upon the relation between the amount of debit and the minimum time necessary to collect. This latter payment can be justified if commission terms are continued, not only from the point of view of equity, but also because the cost of acquiring each £1 of such debit may be lower in the rural areas. For example, in one large society it has been the practice for many years for prices of nominating rights of books changing hands to vary from district to district, and whereas in the majority of urban areas the price might be based upon 30 times the total equivalent weekly premium yielding 25%, with adjustments for business at advanced ages or near to maturity, the corresponding figure in scattered rural areas might be 25 times or less. In this particular case purchase rates were agreed with Unions district by district and fixed for all time at the outset of the scheme.

At least two other items calling for increased expenditure must be considered. First, a larger supervisory staff will be required, not merely to cover the difficulties of the take-over period (which is probably best arranged as and when existing agents cease to be in the employ) but also because future agents will have no monetary stake in the business. Secondly, it may be found that with larger debits to service and lesser incentive to build, new agents may need more assistance in the continuing procurement of new business.

13. If action is to be taken the actuary will be much concerned with the method of finance to be adopted. This again will be easier to arrange

if the operation can be financed over a period of years, since the total capital outlay is likely to be between one-quarter and one-half of a year's industrial branch premium income. Broadly speaking, although in the final analysis money can only come from funds belonging to the policy-holders, there are three possible sources of finance:

- (a) Existing contingency reserves
- (b) Valuation surplus
- (c) Weakening of the valuation basis.

Method (c) is clearly the least desirable, particularly if the valuation is virtually on a solvency basis, but where the valuation is made on a strong basis to allow for distribution of surplus the method may be suitable, but only if definite plans for reduced allocations to the Management Fund are made, to correspond with lower expenses allowed for in future valuations. Suppose, for example, that a society conducts only weekly whole-life business carrying a management allowance of 40% of premiums out of which 25% of premiums is payable as collecting commission. If the current valuation basis is relatively strong, say a gross premium valuation on E.L.T. 10 (Males) at $2\frac{1}{2}$ % per annum interest with the full 40% allowance, against interest earnings of $\pounds 4$ %, it may be possible to finance book purchase by weakening the basis and using the reserves released to commence the operation. If the valuation interest rate is increased by $\frac{1}{4}$ % during times of increasing earnings, it should be possible to maintain bonuses to members at the present level. If it is intended that the collecting commission shall be reduced to, say, 15% after purchase of the debit, it would be possible to reduce the valuation expense-loading. The officers of the society must understand, however, that in this case the future allocations to the Management Fund out of premiums must also be reduced. Indeed, since all three sources of finance are linked by the actuary in his assessment of the strength of the society, it is essential that some control is exerted over future expenses, with definite plans for future reductions, if equity to existing members is to be maintained. A gradual process of extinction of book-interest is likely to be more helpful in maintaining equity between generations of members.

14. It is a helpful discipline if the reduction made in the percentage of management allowance can be linked to the proportion of debit on which book-interest has been extinguished. Consider the society postulated in § 13 which is paying 25% collecting commission out of a total management allowance of 40% in years after the first, in which it has been agreed that in future 15% shall be the commission rate on business acquired by the society. For reasons advanced in § 12 (even

apart from inflation) the management allocation cannot be reduced by the full 10% but as an aim it may be decided to reduce it finally by $7\frac{1}{2}\%$. Then if $k\%$ of the debit has been collected in any year at 15% commission rates, the management allowance percentage for the year will be

$$32.5 \frac{k}{100} + 40 \left(1 - \frac{k}{100} \right).$$

Working upon this principle, with corresponding adjustments for monthly tables, and allowing also for a slow swing from weekly to monthly business, one large society has reduced its expense ratio from 35.34% in 1950 to 32.16% in 1959 (excluding staff grants out of surplus) whilst acquiring approximately 40% of the total debit.

It may, of course, become necessary from time to time to amend the visualized target of reduction of expenses, or to slow down the timetable of achieving the aim, in the light of circumstances and of the effects of continuing inflation.

15. Before an office embarks upon a book-purchase scheme the actuary will need to be satisfied that if it should prove to be a failure from the aspect of reducing expenses, there is some means of calling a halt in order to prevent further money being spent to no good purpose. Indeed, if no such means had been included in the scheme, and no savings result, it might be necessary to treat future payments for book purchase, which have been guaranteed to agents, as liabilities at a valuation. Clearly, where money is periodically voted by members out of valuation surplus for this purpose, the actuary's approval should be a requirement. Much will depend upon whether adjustments are to be periodically made to the level of expenses in the valuation, as and when such lower levels are in fact reached. The retention of the existing valuation basis would provide a growing reserve against future capital payments to agents, but a point may be reached where equity to existing members has to be considered. It is desirable that some return should be made to members in respect of surplus forgone, and it is inequitable that all benefits should emerge for the succeeding generations. The lower level of expense should be reflected in higher surpluses available for distribution.

16. The success of the scheme should, in fact, lead to a re-appraisal of the bonus-earning power of contracts issued in the industrial branch. Since, as shown earlier in this paper, the savings in expenses will generally be proportionately higher under weekly whole-life tables, it is almost inevitable that new tables of premium rates must be considered. Even if different reversionary bonus rates currently apply to monthly endowment assurances, the effect of a level percentage reduction of

premiums absorbed by expenses will vary by age at entry (which may range from 1 to 75 years next birthday) and could not equitably be reflected in a level increase in the rate of bonus allotted. Quite apart from requirements arising out of book-interest several offices have issued revised weekly whole-life tables since the war, and some problems arising thereunder will be considered in the next section.

NEW BUSINESS

17. In the Reports of the Industrial Assurance Commissioner for the years 1957 and 1958 information is given regarding new assurances taken out during those years. Details regarding the sub-division of new assurances by types of contract are not available under the statute, but the fourteen companies, together with the six societies having the largest premium income, agreed to supply certain information voluntarily. It is noted that between them the twenty offices were responsible for about 99% of all such new business written. The figures shown in Tables 4 and 5 are derived from the Reports, and from the returns of

Table 4. *Average sums assured*

	1957		1958	
	£	s.	£	s.
All offices, all classes	59	0	56	6
Companies, all classes	61	4	58	12
Societies, all classes	50	16	47	19
One society, all classes	56	6	49	7
20 offices, whole-life	43	14	36	14
20 offices, endowment assurance	72	10	75	5
One society, whole-life	35	8	28	12
One society, endowment assurance	86	2	89	5

Table 5. *Distribution of new premium income by class*

	Twenty offices		One society	
	1957 (%)	1958 (%)	1957 (%)	1958 (%)
Whole-life (including joint life)	20.5	23.6	31.7	38.0
Endowment assurance (including joint life)	61.4	59.3	64.6	58.5
Whole-life with periodical endowments	15.1	14.2	3.7	3.5
Endowment assurance with periodical endowments	1.7	2.3	—	—
Other (including pure endowments)	1.3	.6	—	—
	100.0	100.0	100.0	100.0

one collecting society which was responsible for approximately 50 % of the new business written by such societies.

The effect of the increased facility commencing in September 1958 to take out parent and grandparent policies up to the new limit of £30 is very clear in a comparison between the two years. Many £10 additional policies were effected, lowering the over-all average sum assured and that for whole-life in particular. From Table 4 it is evident that the lower average sum assured in the societies is not solely due to the higher proportion of whole-life business suggested by Table 5, but rather to a lower sum assured on whole-life business. This is probably influenced by the transaction of a greater proportion of parent and grandparent business with limited sums assured by smaller policies at older ages at entry, and also by the issue of 1*d.* weekly policies on the lives of children with deferred whole-life benefits commencing from the age of 10. By coincidence the average annual whole-life premium for 1957, at 10*s.* 2½*d.* per £10 sum assured, was nearly the same for the one society in question as for the twenty offices, and would correspond with an average entry age in the middle forties.

Individual companies and societies would show wide variations from the figures given in Table 5 for the twenty offices, and the new income attributable to whole-life with periodical endowments would appear to be largely the result of a few offices only. In Table 3 of Britt's second paper to the Faculty he notes that one company for 1957 showed proportions of new income as 7 % whole-life and 93 % endowment assurance, and other offices have previously indicated percentages in excess of 80 for endowment assurances. In passing it may be wondered whether such a swing to shorter-term business has any effect upon investment policy generally, or upon the consideration of segregation of assets between branches in the light of the need for financial stability.

In the course of a recent investigation in the society mentioned above, which does not segregate assets between the branches, the figures shown in Table 6 of net 'liability outgo' were obtained. These allow for future bonuses, for surrender values and for future premiums less expenses, but do not take account of future new business.

More than 95 % of the existing premium income in the ordinary branch consists of endowment assurance, but in the industrial branch the comparable figure is not much more than 50 %. It seems clear that in this society the requirements for matching assets with liabilities are very different between the branches, and in some companies which transact higher percentages of endowment assurance new business in the industrial branch, the similar requirements may be tending in an opposite direction.

Table 6

Period	Industrial Branch (£m.)	Ordinary Branch (£m.)
1961-65	8.5	8.2
1966-70	31.3	12.6
1971-75	45.1	10.0
1976-80	30.9	6.7
1981-85	25.0	4.0
1986-90	21.6	1.8
1991-95	16.8	.3
1996-2000	14.7	.2
2001-	41.2	.2

It is at least arguable that the swing away from whole-life assurance has been too great. Public demand in the industrial branch is unquestionably for short-term endowment assurance, and this is correspondingly easier to sell. With the State death grant at £25 only, however, it is essential for some life assurance to be carried at all times, and after maturities of two successive 15-year-term endowment assurances, not only is whole-life assurance more costly, but health may be impaired precluding further cover.

18. Improvements in mortality rates, particularly at the younger ages, and re-consideration of expense problems and bonus loadings have led several offices to issue revised tables of assurance under weekly whole-life contracts since the war. Revision of such rates does not take place frequently because of the many problems which arise therefrom, but if reasonable equity cannot continue by means of bonus allotment, allied possibly to limitation of premium payments, then new tables are desirable.

Many offices allow cessation of premium payments at advanced ages of the life assured, either contractually or by concession out of valuation surplus. If such a practice has been by concession in the past, in framing a new table the question of making such cessation contractual is bound to be considered. For example, if an office allows cessation of premiums at the age of 70 provided that 30 years' premiums have been paid, or at age 75 provided that 25 years' premiums have been paid, the embodiment of this in the contract may actually reduce the sums assured per penny premium at the younger ages, in spite of the improvement in mortality. Contractual limitation is attractive both from the sales angle, and from the aspect of avoidance of misunderstanding by persons assured, when premiums have to be continued at advanced ages at which more than the sum assured may have already been paid in premiums.

19. In deciding expense-loadings for premiums in the industrial branch the traditional approach has been to include a level percentage of the gross premium for subsequent years, with an additional level percentage for the first year. Thus for weekly whole-life contracts this might have been 35 % for subsequent years, with an additional 35 % making 70 % in all for the first year. Britt (*T.F.A.* 21, 283) gives formulae for sums assured on such a basis. It is usual, however, for the amount of premiums to vary considerably with the age at entry, and although several items of expense may be able to be expressed precisely as percentages of the premium (e.g. direct commission), others may be best viewed per policy, or as a varying percentage. It may be that new business fees vary directly or indirectly with entry age, and that the size of the policy will be affected by non-medical limits. In one society the average premium during 1957 (the last year free from the influence of the 1958 Act referred to in §2) ranged from $2\frac{1}{2}d.$ per week below age 15 to $5d.$ per week at age 17, remained constant at about $9\frac{1}{2}d.$ from age 20 to age 50, and then gradually increased with age to 1s. per week. In circumstances such as these it may be reasonable to use loadings varying with age at entry, but societies have to adopt over-all percentages for management fund purposes, and variations in the spread of new business may then have to be considered in framing the annual allocation.

20. When introducing such a new table the effect upon existing policies must be carefully considered, particularly if circumstances are such that lapse and re-entry would be advantageous to policyholder and/or to staff. Several offices have increased the sums assured of existing policies to the new level at least over certain ranges of entrants, but the following points must be borne in mind:

- (a) Statutory limits, both on life-of-another business under the 1948 Act and for friendly societies generally, must not be exceeded.
- (b) The effect upon statutory paid-up policy values.

If increases are granted by way of bonus (of whatever form) the difficulty regarding limits is avoided, but if by way of reversionary bonus fully financed by reserves the statutory paid-up policy values will apparently be higher for existing contracts at similar durations. The funding of the operation is important, and the Commissioner's decision, *Willis v. Pearl* (I.A.C. Report, 1924, p. 115) as modified by a later statement (I.A.C. Report, 1930, p. 13), has been relied upon where the increases are to be paid out of future margins and profits. For a collecting society, intending simply to allow existing members to have benefits equal to new members at similar durations, the best plan is to

grant the increases by way of mortuary bonus, extendable from time to time by members at annual meetings, as future margins become available.

LAPSES

21. No paper on industrial assurance would be complete without some reference to this problem, if only in view of past misconceptions and criticisms. The fact is, however, that steps taken by the offices, coupled with the high level of employment, have reduced the problem year by year since the war. There is still, however, an implied criticism of any case in which a policyholder receives nothing on forfeiture of a policy, which arises where premiums have been paid for less than a limited period which in most offices is one or two years only. The offices would indeed be happy to be without business of this type, since in most cases the expense of issue and lapse, with the extended cover granted, result in financial loss. It is, incidentally, noteworthy that today nearly every office allows immediate full benefit on industrial branch policies, thus following the lines of non-medical business in the ordinary branch.

Insurance is not readily saleable, and the impact of a welfare state on the minds of some members of the community is such that when financial difficulties arise insurance is not viewed as a necessity. As a nation it has been said that we are under-insured, and certainly allowing for the inflation that has taken place it could not be held today that over-selling is a cause of lapse. In one society approximately half of the new policies taken up during the year are procured with the assistance of canvassers, the remainder being written up by the agents alone. In a recent investigation covering 12 months' experience of a given year's new business it was established that there was no material difference in the lapse rate of the two groups, which indicated an absence of high-pressure salesmanship.

22. Week by week the agents have, in effect, to re-sell the virtue of insurance to some existing policyholders, who often take on much greater commitments for hire-purchase of furniture, television and even motor-cars without due consideration. There remain, however, the main substantial body of the general public to whom a financial commitment for the proper purpose of insurance is something solemnly entered upon, and regularly paid, unless dire necessity prevents. Education of the public through the agents and otherwise can do something to convert some to the views of the substantial majority, but there remain people who will be for ever unable to sort out their financial arrangements from week to week. If the offices could pick these out

from the new proposal forms with a view to rejection they would be grateful, and the lapse rate, measured by any method, could be reduced at least by half. But this would be achieved by denying assurance cover to those who probably need it most—which underlines the whole problem.

In recent annual reports of the Industrial Assurance Commissioner lapse ratios are given, showing in any year policies forfeited without grant (whether by cash surrender or by paid-up policy) expressed as percentages of new policies taken up during that year. In a footnote attention is drawn to the doubtful effect of the use of an admittedly incorrect exposed-to-risk figure. The ratios brought out by this method for the years 1958 and 1959 may be particularly out of line for some offices because of the operation of the increased statutory limit of £30 from September 1958 which led to an influx of new policies during the last quarter of the year. In one society, where lapse cannot take place before the seventeenth week even though only 4 weeks' premiums are paid, the ratio for 1958 was 11·7% against 13·2% for 1957, though I doubt whether there had been any significant variation.

INVESTMENTS

23. Since the 1939-45 war the margin between the gross interest yields on industrial assurance funds of companies and societies has widened to a remarkable degree. No more than 3s. 6d. % in 1947, it was 13s. 5d. % by 1952 and £1. 8. 5d. % in 1958. (During the period between the wars the margin was generally about 10s. %.) This has not been due to any lack of investment skill by the larger societies, but mainly to limitation of their investment powers. Table 7 below shows, for 1952

Table 7

	Societies		Companies	
	1952 (%)	1958 (%)	1952 (%)	1958 (%)
British Government securities	33·4	22·3	27·7	23·2
British Government guaranteed	7·0*	8·2	21·1	11·2
British municipal securities	17·0	27·0	3·5	2·3
Mortgages	19·6	19·0	1·5	4·0
Land, property, ground rents	16·2	14·7	8·8	9·8
Debentures, etc.	—	—	13·0	15·3
Ordinary, preference and guaranteed stocks and shares	—	—	18·8	30·1
Other investments	6·8	8·8	5·6	4·1
	100·0	100·0	100·0	100·0

* Estimated.

and 1958, the percentage distribution of assets by main classes for collecting societies, compared with that of the industrial assurance companies which preserve and publish separate assets for the industrial branch. It is thought that both the distribution and trend in these companies may be taken as representative. The figures for the companies for 1952 have been based upon the two largest such companies.

The change in the general pattern of investment held by societies reflects the return to a traditional policy of loans to local authorities, during a period in which companies have been steadily increasing holdings of debentures, preference and ordinary shares. In so far as the increase in divergence of yield is due to this reason, however, it is largely due to such holdings purchased even prior to 1952 where the growth aspect has operated during the inflationary period. At least one company has recognized this in allocating special additional bonuses dependent on the duration of policies. It is very probable that such growth will continue, and if so the competitive power and financial stability of institutions such as societies, able to hold only a more limited range of securities, will be the more difficult to maintain. Land and property offer the one possible source of real appreciation, and although this has applied during the immediate post-war period the future outlook is by no means certain. As against this the market value of ground rents has fallen considerably.

The societies, whilst not adding to their holdings of British Government securities, have seen one-third of the book values (normally maintained at cost price) eaten away by depreciation, at a time when appreciation of ordinary shares has enabled companies to re-arrange book values within the investment portfolio, and still have margins in hand.

It is thus far more difficult to obtain that broad spread of investment so essential in the management of large life assurance funds.

The present Government has, indeed, recognized the need to widen powers of investment of trustees, and has outlined a general approach to the problem in a White Paper (Cmnd. 915) published in December 1959. Broadly the idea is to permit up to half of a trust fund to be invested in high-class company shares, but it is by no means certain that the proposals would apply in this way to the powers of trustees of collecting friendly societies. Prior to the White Paper this problem had been troubling trustees of wills, settlements, etc., drawn up many years ago with restricted investment powers, and the Variation of Trusts Act, 1958, made it possible for applications to be granted in the Courts to widen investment powers.

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24. The preceding paragraph referred to differences in gross yields. The effect of income tax on the interest income of industrial assurance funds of companies is limited by the higher level of allowable expenses necessitated by operations in this branch. In the past some offices have, in fact, paid no income tax on this basis where expenses have exceeded interest, but since the war higher yields and more mature funds have caused interest to exceed expenses, in some cases changing the taxation basis. Even if, however, one takes the effective rate of tax at 2s. in £, the companies' average yield would only be reduced from £5. 19s. 7d. % gross to £5. 7s. 7d. % net for 1958, which is still 16s. 5d. % better than the gross yield for all societies. Bearing in mind the further real growth in income likely to transpire from the more recent emphasis on purchase of equities, the competitive outlook on bonuses does not seem at all favourable to societies. Clearly, the limited income tax concession and other minor privileges of registration are no compensation for loss of freedom of investment in this modern day.

VALUATIONS

25. In the Report of the Industrial Assurance Commissioner for the year 1958 a review has been made of valuation bases and results for the first time since 1953. The following paragraphs consider the use made of various mortality tables and rates of interest by companies and societies separately. Most of the valuations of companies relate to the previous years (1952 and 1957), whilst most of the valuations of societies relate to dates at the end of five-year periods completed during the previous quinquennium (1948-52 and 1953-57). They cover the twenty-four largest societies only.

Table 8

Mortality table used	Number of companies		Number of societies	
	1953	1958	1953	1958
E.L.T. 11 (M)	—	4	—	2
E.L.T. 10 (M)	11	9	11	14
E.L.T. 9 (M)	1	1	1	—
E.L.T. 8 (M)	—	—	8	4
E.L.T. 8 (P)	—	—	—	1
C.C.U.D. 1921 (M)	1	—	—	—
E.C.R.D. 1921 (M)	—	—	1	1
E.L.T. 6 (P)	—	—	3	2
	13	14	24	24

The choice of a particular mortality table does not necessarily reflect the actual experience of any office nor does it indicate the relative

strength of the valuation. The majority of valuations of industrial assurance funds are made with a view to distribution of surplus, and the bases—particularly the rates of interest considered below—play an important part in the emergence of surplus at suitable rates.

26. It is of interest, however, to consider the actual mortality experience, and Table 9 shows the results for 1958 for one society for whole-life contracts only, of which a considerable proportion were issued on female lives. The data consisted of more than 9 million policies giving rise to just over 200,000 claims by death during the year. There is thus still a considerable margin if E.L.T. 11 (M) is used for valuation purposes, particularly at the younger ages.

Table 9

Attained ages	Percentage of actual to expected deaths for the year 1958	
	E.L.T. 10 (M)	E.L.T. 11 (M)
10-19	20	55
20-29	22	53
30-39	34	72
40-49	48	79
50-59	67	77
60-69	77	80
70-79	75	81
80-89	86	90
All	75	82

Table 10

Average *excess* (per office) of net earned rate over assumed rate (%)

Valuation rate of interest (%)	Average excess (per office) of net earned rate over assumed rate (%)			
	Companies		Societies	
	1953	1958	1953	1958
2	2.00 (1)	—	—	—
2½	2.00 (1)	3.06 (3)	—	—
2½	1.73 (5)	2.68 (5)	1.14 (5)	1.38 (5)
2¾	—	3.12 (1)	.77 (5)	.92 (5)
3	.94 (5)	2.58 (4)	.48 (13)	.61 (11)
3½	.80 (1)	1.76 (1)	.30 (1)	.32 (3)
All rates	1.40 (13)	2.70 (14)	.67 (24)	.80 (24)

27. Table 10 is an attempt to measure the relative strengths of valuations covered by the Reports for 1953 and 1958 by comparing the valuation rate of interest with the actual interest earned during the valuation period.

The following points must be borne in mind in considering the figures:

- (i) As mentioned above the dates and periods of the societies' valuations are about five years earlier than most of the companies, which makes a considerable difference to the earned rates of interest: these are recorded from the accounts as

Companies:	1953, 4.75 %;	1958, 5.8 %
Societies:	1953, 3.9 %;	1958, 4.5 %

- (ii) Different treatment of asset values and investment reserves can make apparent variations between offices: in the main, book values of societies would be greater than market values even taking investment reserves into account, whereas the reverse would be true of the companies.
- (iii) The few changes in valuation rates of interest which have been made involve three reductions by companies and one increase, against one reduction and four increases by societies.

It can at least be said that the majority of valuation bases are stronger from this aspect particularly in current investment conditions, with the balance in favour of the companies over the period under review.

28. The third constituent part of the valuation basis, the proportion of premiums reserved for future expenses and profits, is naturally affected by the valuation method itself. The figures quoted in the Commissioner's Reports are difficult to analyse, since weekly business is often combined with monthly business, and the method may be a net premium, a modified net premium or, in the case of some societies, a gross premium one. Redington's paper, *Review of the principles of life office valuations*, and the discussion thereon with particular reference to collecting societies (*J.I.A.* 78, 286), covered the purpose and principles governing the selection of suitable bases and methods. In relatively few cases is solvency the purpose of an industrial assurance valuation, and for the period 1953-57 only three small societies showed a deficiency, amounting in all to only £2746.

In many societies, however, the proportion of future premiums reserved in the valuation is insufficient in the light of current management expenditure, and in these cases specific additional reserves are sometimes made by the actuary or periodic transfers from valuation surpluses to management funds are provided. The Commissioner has devoted a special section of his 1958 report to this problem (Manage-

ment Expenditure in Small Societies) with a view to directing the attention of actuaries and management committees to the dangers involved, and to the most suitable remedies.

CHANGE OF CONSTITUTION

29. It may be asked why, in the light of investment difficulties, future competition, and the effect of the limitation on new business shown in §4, the leading societies have not changed their constitutions into that of mutual companies. Three reasons might be advanced:

- (i) A justifiable pride in achievement within the friendly society movement, coupled with satisfactory progress in growth of premium income in both the industrial and ordinary branches.
- (ii) The period of serious inflation is perhaps only just coming to an end, and with full realization of the implications becoming more widespread it was thought that statutory measures, as accepted to be necessary in 1948, might be introduced to ameliorate the position.
- (iii) The crippling effect of income tax, immediately after a change of constitution, upon the interest income in the ordinary branch. This would operate, presumably in full, upon income derived wholly from the previous restricted range of securities.

30. It may be helpful to analyse these reasons. An index of comparative progress is given in Table 11, premium income being chosen as the most suitable measure. 1949 is taken as the base year, being the year following the last amendment of friendly society limits.

The industrial branch production of new business by societies is not so directly curbed by the £500 limit as is the ordinary branch, but an

Table 11. *Premium income and progress index*

	1949	1953	1958
Industrial branch			
All collecting societies	£24m. 100	£26m. 108	£31m. 129
All companies	£100m. 100	£117m. 117	£147m. 147
Ordinary branch			
All collecting societies	£3·8m. 100	£5·0m. 130	£6·1m. 161
All companies transacting industrial branch business	£61m. 100	£78m. 128	£109m. 179

ever increasing number of members reach the limit of their 'ration' by taking out successive policies, and this may well be reflected in the progress index shown in italics above.

In considering the index in the ordinary branch it is important to note the actual amounts of income and their relationship to the corresponding industrial branch figures. Ordinary branch development is of more recent origin in the societies, and the premium income is only about one-fifth of that received in the industrial branch. There are, of course, many classes of ordinary branch business not open to collecting societies, but it is significant that the new sums assured were 15% less in 1953 (£9.2 m.) than in 1949 (£10.8 m.), and in 1958 (£11.4 m.) were still less than the maximum for the decade (£11.9 m.) achieved in 1951. Moreover, much of the societies' ordinary branch production since the war has been associated with mortgages for house purchase, which probably represent a large part of the £58 million invested by way of mortgages by the societies at 1958. Much more life assurance business would, however, have been written in this connexion were it not for the £500 limit, bearing in mind the price of houses and mortgages required. It is felt, therefore, that although progress can be regarded as satisfactory, the ever-increasing fall in the value of money is beginning to have a more marked effect.

Reason (iii) above would appear to be decisive by itself. Thirty-seven societies transacted ordinary branch business during 1958 with ordinary branch benefit funds amounting to £48,494,000 at the end of the year, showing a gross (and net) yield of £4. 12s. 2d. %. If, owing to a change of constitution, tax had to be paid, the net yield would have been reduced to £3. 12s. 1d. % even assuming that all expenses were allowable. The effect upon members' bonuses for many years might be disastrous. In order to restore the position it would be necessary to increase the gross yield on the whole fund by approximately £1 %, and although this might be achieved gradually by the use of the wider investment powers available after conversion, it would be difficult to continue to write with-profit business. A cut of some 15s. % in the rate of reversionary bonus would not be acceptable to existing members in the interests of future generations. The figures given do, in fact, assume that there would be no immediate increase in new business following conversion. Any such increase leading to higher allowable expense would, of course, reduce tax, but even a 25 % increase in new business would only increase the net yield quoted above from £3. 12s. 1d. % to about £3. 13s. 6d. %.

31. The position in the industrial branch after conversion would be very different. Whilst some of the smaller societies, writing perhaps a

lower proportion of new business, would be subject to income tax at an effective rate of 1s. to 2s. in £, the larger societies have expenses exceeding interest income, although several are rapidly moving to a taxable position. No tax would thus be payable until the effect of wider investment powers on overall yield had begun to operate. It could well be that the bonus prospects of industrial branch members would be immediately improved at the same time that ordinary branch members were definitely handicapped. Since by statute there could be no transfer of funds between the branches, there would be no opportunity of redressing the position, in equity, within the organization itself.

32. It is not, therefore, surprising that there has, in fact, only been one example of a conversion to a mutual company since the passing of the Industrial Assurance Act, 1923. This was effected under s. 71 of the Friendly Societies Act, 1896, as modified by s. 38 of the 1923 Act, and concerned a small society which had little ordinary branch business. The taxation problem did not, in fact, arise at all, since the allowable expenses exceeded the interest income. It is understood that the Chief Registrar was particularly concerned that the rights and privileges of existing members of the society should be maintained by the new organization, and that a suitable clause was inserted in the Memorandum of Association. Included in these rights were nominations made prior to conversion, even though no further nominations could be made thereafter.

THE FUTURE

33. Whither industrial assurance? Since the passing of the 1923 Act changes in scope, character, practice and organization have been considerable. Even the name, for public relations purposes, has been changed by the offices to 'home-service' assurance, with a view to being more descriptive and to avoidance of confusion with industrial injuries insurance, etc. Indeed, the one essential feature is, and always will be if the business is to survive and progress, the conduct of operations in the homes of the people by agents appointed for the purpose. The calls made by these same agents are productive of much fire, accident and other general branch business, quite apart from the introduction of the more financially progressive policyholders to the ordinary branch. As with the industrial branch, much of this other business would not be written at all without the agent, who is expected to be able to deal with all types of insurance. Collecting societies make suitable arrangements with companies in order that their agents may offer such a service, and some other offices re-assure the whole of such general branch business. The full insurance needs of each succeeding generation have thus to be

provided for, and although these needs may change, as is evidenced today by the swing to endowment assurance, it is clear that scope for progress will remain. This is particularly true at the present time, when much of the life insurance cover carried still remains at pre-inflation levels, or has only been partly adjusted.

Profit-sharing in the industrial branch has made great strides, and is likely to continue to do so. In Tables 8 and 9 of his 1959 paper Britt has shown the relative level of dividends to shareholders in proprietary companies in 1947 and 1957, and the share of distributable surplus allocated to the policyholders should continue to increase. In many offices reversionary bonus systems now apply, with bonus levels at half or three-quarters of the ordinary branch rates. With the high net yields now being earned, and increasing reliance on equities in the investment field, bonus rates are likely to increase still further.

Payment of additional contributions by employees for graduated pensions under the National Insurance Act, 1959, may have some temporary effect upon progress in the industrial branch. Nevertheless, previous increases in such contributions, and even the introduction of State death grant in 1948, have had little long-term effect. Premiums are paid out of the money actually taken home by employees, and have to take their place, and compete, with other items in the weekly budget of the home.

Generally, from the point of view of the national economy, the industrial assurance companies and collecting societies make considerable contributions to the net savings of the community, which would be unlikely to materialize in any other way. The net increases in funds form a useful source of new money for investment purposes.

34. Whither collecting societies? Against the background of the preceding paragraph the future must be considered separately for the smaller local societies and for the larger nation-wide institutions. There is no doubt that many small societies will cease to exist as separate entities in the years to come, and the 1958 figure of ninety-six collecting societies may well be reduced to half that number. In the past public-spirited men have given their service to these local societies voluntarily, in the friendly society spirit, but small units, unable to move with the times, are not economic today. In the absence of vigorous re-development and local support, many will therefore be forced, in the interests of their membership, to wind up or to transfer their engagements to larger institutions.

The achievement of progress at a commensurate level by the larger societies will depend upon their ability to overcome the problems discussed earlier. The £500 assurance limit per member, beginning to

be felt in the industrial branch as the swing to endowment assurance progresses, will become even more limiting in the ordinary branch. If all needs cannot be met by the one agent calling at the home it may well be that in some cases none will, the business being lost by the friendly society movement.

The problem of investment powers is almost as great, but here some relief may come about. It is to be hoped that the substitution of one strait-jacket for another is not the eventual outcome. Failure to solve either of these problems must lead to contemplation of the third, the immediate incidence and effect of taxation following conversion to a mutual company. Unless some acceptable method can be devised, however, for sheltering the existing ordinary branch members from the full effect of tax—possibly by means of assessments related, for a limited period, to the proportion of funds invested under present restricted powers and otherwise—collecting societies would be limited to contemplation of this problem, from within the confines of the Friendly Societies Act, 1896, and the Trustee Act, 1925.

35. In conclusion I must express my thanks to K. J. Britt, F.I.A., F.F.A., for his encouragement and helpful suggestions, to D. H. Harris, F.I.A., for his assistance with the facts and figures, and to the Industrial Assurance Commissioner's office for information regarding dissolutions and transfers.

ABSTRACT OF THE DISCUSSION

Mr H. F. Fisher, in introducing the paper, said that it owed much to discussions at the Faculty of Actuaries on papers by K. J. Britt, who, though prevented by ill health from attending, had sent a written contribution to the discussion (see p. 188).

Since the paper had gone to proof there had been two publications which shed fresh light on the points to be discussed. The Report of the Industrial Assurance Commissioner for the year 1959 had appeared in November, and showed that the business as a whole had clearly continued to flourish, and the general trends had been maintained. The average new sums assured shown in Table 4 had resumed the upward movement which had been interrupted by the effect of the 1958 Act. Whilst all the information was of interest, there was nothing which would lead to a fresh approach to any section of the paper.

Secondly—and perhaps of more significance—the Trustee Investments Bill had been introduced into Parliament. The Bill was an implementation of the Government White Paper referred to in §23, and it was understood that trustees of friendly societies, in common with other trustees, would derive wider investment powers from it. It was clear that the Bill was drafted primarily to assist the trustees of funds created by testators or by settlements, particularly where life tenants and reversioners were involved, and, in the main, it visualized funds of defined capital content with normal interest accruals, special attention being given to any land and property included. It was significant that in the debates in the House of Lords problems of the institutional type of fund—and more particularly of growing life assurance funds—were not discussed at all.

The Bill followed the lines briefly mentioned in §23, and would limit one half of a trust fund to what were termed narrow-range securities (similar to those available under the Trustee Act, 1925); the other half would be allowed to include also (subject to certain provisions) wider-range securities, such as ordinary shares of companies having a capital of at least £1,000,000 on which dividends had been paid regularly for five years. Many complications would arise from (a) the necessity to divide the fund at the point of time when wider-range investments were first to be made, (b) the need to credit accretions to each half of the fund separately and to divide new capital moneys equally. The division was to be made by 'value' (which was not defined in the Bill), and for a collecting society it might be that neither 'market value' nor 'book value' would be particularly appropriate. Moreover, since separate assets were not normally held for the industrial assurance fund and the ordinary assurance fund, the division of assets into two halves under the Bill might mean that any disproportion of investment reserves or differing rates of growth of the industrial and ordinary branches could lead to problems of equity in practice.

Since collecting societies were already under professional supervision and statutory control, and in view of the nature and purpose of their funds, his own personal view was that it would be more satisfactory to grant the limited extension of investment power without the complicated strings which were apparently to be attached.

Mr A. G. MacG. Fraser, in opening the discussion, said that Table 2 showed the decline in numbers which had occurred among the societies—a decline which was particularly marked since the end of the war. By the end of 1959 the

number of societies had shrunk further to 93, three small societies having transferred their engagements in 1959. Of the 93 societies 70 had premium incomes of less than £8000 per annum each. In general those 70 societies had the smallest flow of new entrants relative to their size, the highest lapse ratios and the highest expense ratios. Unless, therefore, there were special circumstances which overrode those hard facts, the best future for practically all the small societies seemed to be either dissolution or a transfer of engagements to a larger society. A transfer offered the easier procedure and served to maintain the friendly society spirit among the members of societies. It was significant, however, that in the years 1936 to 1958, as demonstrated by an analysis in § 7 of the paper, there was a stronger tendency for societies to dissolve than to transfer. A cogent reason for that tendency might have been the desire of members for the ready cash, or perhaps a lack of attraction of small societies to the larger societies.

The subject of expense ratios and the closely allied matter of book interest had been accorded the treatment their importance deserved. It was good to see that the average expense ratio for the societies had declined in recent years, no doubt partly as a result of the successful operation of purchasing book interest. He was not, however, altogether convinced by the mathematical demonstration in Table 3 of the effect upon the expense ratio of a swing from weekly to monthly business. He referred in that connexion purely to the 'vertical' comparison. That demonstration rested first of all on the assumption that the society's expenses were contained by the allocations to management: that was not always so and need not be so. There were human elements which might upset the calculations. The weekly renewal commission was higher than that on monthly business, so that there was an incentive to the agent to sell weekly policies, especially if he was already calling weekly at the same house or one nearby. In many cases the agent would know that a month was too long a gap to leave a particular household if the business was to be retained, particularly if there was a rival agent with his foot in the same door. It might sound regressive, but he could not help thinking that there was something to be said for going over entirely to weekly business. The advantages from the expense angle of monthly business over weekly might be something of a mirage.

He was interested in the spread of future net liability outgo which the author provided, for one society, in Table 6. What struck him forcibly about the table was the shortness of the mean term for the ordinary branch. With nothing more than a general recollection of the data in various valuation schedules, he had the impression that the spread quoted by the author was exceptionally short. In any event, Table 6 did provide an argument for the separation of assets.

The author had naturally included a section on valuations, and the part dealing with mortality would be a useful yardstick for those actuaries who had to deal with societies. The author rightly pointed out, however, the limited value of the conclusions which could be drawn from Tables 8 and 10 on the relative strengths of valuations. Perhaps the only firm conclusion was that there had been a general strengthening of valuations over recent years.

He proposed to devote the rest of his remarks mainly to the question posed in § 34—Whither collecting societies? He suspected that the author had bent over backwards to avoid any possible charge of special pleading. He himself took a less sanguine view than the author of the future of the smaller societies. He thought that probably 70 or more of them would disappear from the scene. It

was a pity, but for the most part they could go out with a fine record of service during times when it was most needed. What of the remainder? There was no doubt in his mind that as societies they laboured under disadvantages which in aggregate outweighed the advantages. Most of the disadvantages were mentioned at the appropriate stages of the paper, but he proposed to gather them all together in case their weight had been dissipated.

First, there was the limit on the sum assured. Table 1 drove the point home very clearly. As a consequence of the limit the proposal form was complicated, but he wondered how many societies checked the answer given by the proposer regarding the cover he already had in the same and other societies. Secondly, the societies had no power to re-assure. Besides inhibiting their ability to write 'self-employed' annuities, that might also give the society with a small ordinary branch grave concern over mortality risk. Thirdly, the requirement of separate income accounts for each table or at least each group of tables with a common management percentage meant extra work and so extra expense. Fourthly, the requirement to maintain a separate management fund again meant extra work and expense, and appeared to impose restraints on the actuary, for it would seem from the Industrial Assurance Commissioner's comments in his 1958 report that in some valuations a virtually permanent imbalance in the management fund was not dealt with on the long-term basis it deserved. Fifthly—and arising out of the previous two points—the agents' collecting books were necessarily more involved: that was more expense. Sixthly, the societies were governed in their operations more or less rigidly by a set of rules, leading to a lack of flexibility in a number of ways. The rules which embodied the tables of premium rates could only be altered at a general meeting of members. That was cumbersome, particularly if there did not happen to be an annual general meeting in the offing. Previously, so far as he was aware, no premium rate other than those actually included in the rules could be quoted, but the Industrial Assurance Commissioner had lately permitted at least one society to introduce a fairly general rule which allowed extraneous rates to be quoted provided they followed the same bases as those adopted by the actuary for the particular type of tables included in the rules. Another aspect of the rules was the cumbersome constitution which was sometimes provided. Some societies had delegate meetings, the expenses of which were considerable, and of course, the major policy-making of the society was in the hands of those numerous delegates. Seventhly, and finally, there was the restriction on investment powers. As the author had reminded them, the Trustee Investments Bill proposed to rectify the position to some extent, but the Bill was not entirely suitable to the situation of the societies. He fully agreed with the author that what the societies needed was particular legislation without yet another strait-jacket of administration.

Those were the disadvantages, and he could not help feeling that they represented a formidable set of shackles. To offset them there was the freedom from stamp duty, which was of minor importance, and there was the freedom from income tax, which had been nullified by the restriction on investment powers. By 1959 the yield gap between companies and societies had become £1. 11s. 1d. % gross, or 18s. 8d. net, if they assumed an effective rate of 2s. in the £ for the companies. The result was that, by and large, the bonus earning capacity of the societies was much weaker than that of the companies. Apart from the increase in the yield gap an earlier advantage in competition over the companies had been virtually eliminated by the action of the companies: thirty years earlier the

industrial companies were largely proprietary, but over those years they had progressively, in effect, mutualized themselves by allocating an increasing proportion of surplus to policyholders.

Why, then, had only one society converted itself into a company during the past thirty-five years? The procedure for conversion was relatively simple. The author provided three possible reasons in §29. He (the speaker) suggested that in some cases the first two reasons—pride in achievement and statutory relief—might merely be excuses for following that well-known policy of doing nothing. But on the decisiveness of the third reason—the impact of income tax in the ordinary branch—he had to part company with the author. It seemed to him that if conversion to a mutual company was considered to be ultimately to the advantage of a society, and both past history and the disadvantages of the existing position were by themselves very powerful persuaders, then it should be undertaken and ways and means should be sought to overcome the temporary problems which arose.

It was, however, difficult, if not impossible, to generalize on those ways and means. Each society presented its own particular set of circumstances. In several societies in his experience the proportion of with-profit business was small and the cost of the bonus insignificant. To such societies the change to a mutual company would not affect the bonus but merely the cover for it, but as the cover for the bonuses was already substantial that was not a significant point. In some societies a high proportion of ordinary branch new business resulted from house purchase mortgages, which because of the sum assured limit were often partially secured on policies not issued by the society. The removal of the statutory limit would therefore lead to a substantial increase in new business without increasing the volume of mortgages, and the society could obtain a still greater increase in new business if it was prepared to increase the volume of mortgages. The expansion in new business would, of course, reduce the tax liability in the short term. The author pointed out that a 25 % increase in new business increased the net yield by about 1s. 5d. %, and that was in line with some calculations he himself had made. He thought that in current conditions there would be no insuperable difficulty in doubling the new business through expansion of mortgages alone.

Where particular circumstances such as those did not hold and the tax bill was a serious problem, one solution might be to resort to mortuary bonuses for the time being. In any event, where conversion was undertaken during the period of high interest rates and where the ordinary branch fund was expanding or was expected to expand more rapidly than the industrial branch fund, there was a case for separation of assets, otherwise the expansion of the ordinary branch would subsidize the industrial branch. And if the yield in the ordinary branch did fall by as much as 1 %, how long was the consequent strain likely to affect bonuses in the current period of high interest rates? In §27 the author showed that the average yield of the 24 largest societies increased by 0.6 % between 1953 and 1958. The pace had doubtless accelerated since then and they had to remember that the societies had much more room for improving their yields than the companies. With a fairly rapidly expanding ordinary branch the strain of holding bonuses at their current level might therefore last for a few years only, particularly if the with-profits business was fairly highly geared.

Even so, conversion to a mutual company was a solution open probably only to the larger societies. It was to be hoped that for the sake of those which

remained as societies the Government would take steps at an early date to raise the existing limits.

Mr J. A. S. Lamb referred to §11, where the author mentioned the views expressed in the report of the Cohen Committee and in the Beveridge Report on the meaning of book interest. He did not personally think it was helpful to speculate on the metaphysics of the subject. He did not believe that any ideas on those lines ever entered the minds of their forefathers who initiated the book interest system. To them the purchase of a book represented a means of acquiring a secure income, making provision for retirement and obtaining a job which combined to a great extent the security of salaried employment with the freedom of an independent business. As the author had pointed out, the Cohen Committee's view had lost much of its force since the advent of monthly business on a large scale. It had been found possible, by placing an emphasis on the procuration of monthly business and other business at lower commission rates, for a book interest office to bring collecting costs into line with those of an office employing salaried collectors. In that connexion, with regard to the point made by the opener, he wished to emphasize that it was the reduction of commission rates on monthly business which had had the principal effect in reducing expenses.

From the point of view of the office, the book interest system under which the agent was paid entirely by commission had two major advantages. First, the agent had an interest in the preservation of business for which he was responsible and therefore did not require the same degree of supervision as would be necessary were he deprived of his nominating rights. Secondly, in times of inflation an agent's earnings increased, even though his terms of remuneration remained unaltered. There were, however, a number of disadvantages. It was much more difficult under a book interest system for the office to maintain control of the agent's earnings or of the way in which he organized his work. Unless conditions regarding transfer of business were written into an agent's contract of service—and that had been the exception rather than the rule—it was impossible to compel him to transfer business in which he had a nominating right, even though the policyholder might have moved away from the area in which the agent normally collected. As the author had indicated, difficulties also arose in recruiting new staff. Recruitment was limited to persons capable of finding the deposit necessary in order to purchase a book, and as a result the average age of new recruits tended to be rather higher than might be desired. Furthermore, the book interest system had an attraction for the man who wished to secure himself a modest income combined with leisure rather than to improve his standard of living by virtue of his own efforts.

An office considering taking over book interest had to keep two objectives in mind: first, to ensure that the cost of collecting a pound of debit was competitive; secondly, to ensure that the agent's earnings were maintained at a satisfactory level. It had already been said that it was possible to reduce the over-all commission rate without taking over book interest. If that was done the second objective could only be achieved, as the author pointed out, by ensuring that the agent collected more debit during his working week. The increase in the average size of policy consequent upon inflation and the rise in the working class standard of living helped but it was not enough. What was required was the rationalization or 'blocking' of collections so that the agent did not waste an

undue proportion of his time travelling from one call to another. Under a book interest system rationalization was often difficult to achieve. It could only be done with the co-operation of the agent, and many agents, for sentimental reasons, preferred to go to a considerable amount of trouble rather than transfer the business of a family with which they had been associated for many years but which had moved away from the area. It followed, therefore, that a book interest office which succeeded in reducing its over-all commission rate to a satisfactory level might well find itself in a position where its agents, although adequately remunerated for the debit they collected, were operating relatively small and scattered books, with the result that their weekly earnings compared badly with those of agents in other offices. If such an office failed to come to an agreement with its agency staff on the rationalization of debit it might ultimately be forced into purchasing book interest and justifying the cost by the potential saving in the number of collectors required to service its business. The possibility of blocking debits was at least as important as the possibility of varying commission rates in arriving at a decision whether or not to buy out book interest.

The actual taking over of book interest presented considerably more problems than might appear from a first reading of the paper. In the first place, it was impossible to determine the market value of a book since there was no free market in books. The purchase price was normally pegged by the agents' union and did not fluctuate with supply and demand. Secondly, an offer to purchase on the lines suggested by the author in parentheses in § 12 would result in the immediate resignation of a number of agents who had only been continuing in service because they could not find purchasers for their books. If purchases were confined to agents ceasing to be in the employ of the office a third problem arose. The rationalization of debits was made difficult by the fact that in many cases a particular block of business, which the office wished to split in order to consolidate the books in the area into worth-while and easily collectable units, happened to be in the hands of an agent who had no intention of resigning or agreeing to any alterations in the debit he collected. Finally, a system which granted different rates of remuneration to two men working side by side and doing virtually the same job would inevitably give rise to a number of extremely difficult staff problems. What was really required was to obtain control of the debit immediately and pay out capital over a period, and he believed that a solution of the problem on those lines might be found. It would presumably involve some form of interest payment to agents over a period when they were awaiting payment of the capital ultimately due to them. If such a solution could be negotiated some of the more serious difficulties to which he had referred would disappear.

In connexion with industrial branch mortality, the author referred in § 26 to the considerable proportion of female lives encountered in industrial assurance business. That peculiarity arose principally from the fact that the agent collecting at the home was far more likely to encounter the wife than the husband and would do most of his business with her. In an investigation recently made by one office into the proportion of new policies written on female lives it was discovered that, whereas in the ordinary branch about 15 % of new whole life and endowment assurances were written on females, the corresponding proportion in the industrial branch, based on a sample investigation, was nearly 50 %. A further interesting fact emerged in connexion with the industrial branch: under tables in which the average sum assured was low the proportion

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of female lives in the new business was about 55 %, but under tables carrying a substantial average sum assured the corresponding proportion was just over 35 %. In both the groups he had mentioned there was a substantial proportion of long-term business. The possibility of a significant variation in the proportion of female lives between one table and another, and between larger and smaller policies in the same table, was a factor which should be taken into account in designing and interpreting a mortality investigation. A comparison between an investigation based on policies and one based on sums assured would, he believed, be extremely interesting.

Mr D. Wright, F.F.A., expressed the opinion that in some matters discussed in the paper the author had galloped up to the fence and then sat on it! That was so in regard to his remarks on the limitation of sums assured and annuities, the restriction of investment powers, the inadequacy of the 1896 Act in modern circumstances, and the subject of change of constitution.

A watertight case could be made out for a substantial increase in the limit on sum assured, and that was really the ideal solution to the cramping conditions facing the movement. Fortunately, the restriction on investment scope would shortly be removed, but the movement was in some doubt whether or not the new freedom would in fact be applicable to societies. The attitude in the matter of limits and freedom of investment might lead to the idea that there was some official disfavour of friendly societies, whether engaged in industrial assurance or not. If that was so, the movement was doomed to an existence on ever-narrowing margins, and the sooner steps were taken to convert societies to companies the better. But there was the problem of the ordinary branch, if it was of any size at all, as mentioned in the paper. There was considerable difficulty administratively in taking such action. He did not agree with the opener when he said that the steps to convert into a company were easy. They were certainly not easy if the society was a large one. If the membership was over 100,000, the terms of the Industrial Assurance Act, 1923, required that there should be a poll of members and that at least 55 % of adult members should agree to the conversion. A poll of membership for a society of any size was an extremely difficult operation. To carry it out the society would have to employ its agents, who had a habit of expecting payment for any job they were asked to do.

The 1896 Act was perhaps suitable when passed but it abounded in points which did not apply any longer. Some societies had far outgrown the conditions for which the Act was devised. The author had mentioned the requirement to maintain separate records for each table, which was impossible without a great deal of uneconomic work. Even the sum assured limitation was framed in a rather difficult fashion, and, for instance, there was an awkward situation if a surrender value had to be quoted for a deferred annuity for £104 per annum shortly before vesting date, when it would considerably exceed £500. The transfer of engagements procedure was also very complicated, and for any society the work of obtaining assents was out of all proportion to the value of the result, which almost certainly would be inadequate anyway. Application would then have to be made to the Commissioner for a dispensation in lieu of the assents.

The question of the transfer of a small society was discussed by the author in §7, but one point he had not mentioned was the desire of large societies to maintain public goodwill for the benefit of the whole industry. There were also

the advantages of a new and probably under-insured connexion being immediately acquired, with scope for improved blocking of debit and higher agency earnings and the spreading of fixed overhead expenses over a larger debit. Whether those advantages were enough to compensate the accepting society for the undoubted drawbacks was a matter not open to generalization.

The author had dealt fully with the actuarial research necessary in considering acceptance of a transfer, a matter of which he probably had more experience than anyone, but he would probably agree that in most cases the result, however correct theoretically, was practically only an approximation to the true position. It was unfortunately usually the case that when a transfer was contemplated there had been a considerable period of difficulty, and the actual liability of the society as obtained from correct collecting books' information might in fact differ quite considerably from that obtained from office records, owing to the accumulation of errors over many years, and inadequate supervision. It took some time and much labour to get the true facts, and only then could the valuation situation be tested accurately. It was then too late to withdraw from acceptance of a transfer.

It was surprising that the author had made no mention of the constitutional set-up of societies. It might be that that omission was deliberate, for there were considerable variations on the theme of democratic organization. The general position was, however, that a pyramid of authority was built up from the members, who elected delegates, who in turn elected a board of management and sometimes officials as well; in other cases, the board appointed officials. In some small societies the delegate stage was omitted. That democratic system could sometimes have unfortunate results, but it was gratifying to note how many able men had risen to the top in spite of it. It was true that in many large societies the vast majority of members did not exercise their democratic rights; in fact, it was probable that they did not even know of them. They were accustomed to looking on the society as just another industrial assurance office. There were, of course, other businesses where a similar situation existed and no doubt they had a similar experience.

In considering the figures given for comparison with companies, the rude things often heard about statistics should be borne in mind. The collecting societies varied very greatly in size. The largest society accounted for over 50 % of the business, and the two largest for over 80 %. Averages for the whole movement in those circumstances were perhaps rather misleading.

Mr J. K. Scholey mentioned that the purchase of book interest was in progress in at least two large collecting societies besides the one to which the author referred. In one of them approximately 25 % of the total debit had already been purchased, and the savings that had been secured in expenses had been reasonably satisfactory. The author pointed out that savings equal to the full percentage reduction in commission might not be secured because of the extra expenses and payments which were involved, and suggested (in § 14) that instead of a full 10 % saving the aim might be to reduce expenses finally by 7½ %, which was three-quarters of the maximum possible saving. The experience, so far, of the society mentioned by the speaker was that three-quarters was rather on the high side, and that 60 % or two-thirds would be nearer the mark. One reason was the need to supplement the commission earnings of agents with small books. Additionally, there were payments to extra inspectors and supervisors.

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He had noticed that in §12 the author remarked that additional weekly payments in the case of small books could be justified because the cost of acquiring the business might have been lower. On a weekly book of £40, the difference between buying at 25 times and buying at 30 times would be £200; that only yielded £10 a year if invested at 5%, or 4s. a week, so it would seem that an extra payment on that level was all that could be justified through the lower terms of purchase, but of course a much larger weekly payment than that might often be involved. He hardly thought that those payments in the case of small books could be justified financially, but they were justified by the need to collect in rural and semi-rural areas and by the obvious necessity to pay a living wage.

A society looked at the purchase of book interest quite differently from the agent. The society had to ensure that the savings on the books covered interest on the cash sums which had been expended and the repayment of those sums over a reasonable period. In view of the uncertainty regarding the future course of events, including the risk of political intervention, a fairly short period should be taken, and it also seemed only prudent that the savings should be restricted to those likely to arise in respect of existing members, taking into account their rates of exit. The agent was only concerned with the earnings from the book on the new terms of commission, and he would certainly not offset the reduction in the notional earnings against the capital he might have had to expend if he had bought a book.

Despite lower commission rates a reasonable wage had to be paid to attract and retain suitable agents, and that could only be done by expanding the size of books. There was considerable work in the maintenance of collecting books and premium receipt books, which could take quite a slice out of an agent's working week. What was done, of course, was to try to 'block' and reorganize the agents' books, but it was quite a sizeable task.

On the financial side, continued and close scrutiny of the results obtained was of the utmost importance in order that early warning could be given of any deterioration in the position which would necessitate amending the arrangements. In the society he had referred to earlier, a fortnightly review had been made in the early days of the scheme for the purchase of book interest, but it had later been cut down to quarterly. It might be objected that little, if anything, could be learned from the results of one particular fortnight. Nevertheless, the trend of the fortnightly figures was of interest, and it was only through such close attention to detail that early and adequate forewarning of possible difficulties could be obtained. A society which bought books was expending the policyholders' money and it was imperative that any remedial action should not be left until it seemed inevitable that losses would occur. Also it seemed best to have the arrangements on a voluntary basis, and it would be wise for the society not to restrict its freedom of action by putting an upper limit on the price which it would be prepared to pay for an individual book, or by indicating that there was a minimum price which it was prepared to pay.

In §13 the author mentioned the possibility of financing book interest purchase by a weakening of the valuation basis. But if the provision made for management expenses in the valuation was reduced by the actual reduction in expenses, there was no weakening in the valuation basis. The actuarial basis could not affect the ultimate profit or loss to policyholders although it might affect the incidence of profit, and it followed that an amendment to the actuarial

basis could only be justified if the project for which the resources were to be released was expected to be financially sound.

In §18 the author, after referring to improvements in mortality rates and other changes in conditions, said that revision of tables for weekly whole-life contracts could not take place frequently because of the many consequential problems. In his (the speaker's) view the root of the difficulty was the legislation affecting industrial assurance and friendly societies. Both the 1923 Act and the 1948 Act were passed within a few years after the end of great wars. In each war they had been accustomed to Parliament issuing regulation after regulation, and the habit had grown of interfering to a considerable extent in the affairs of the population at large. If those Acts had been passed a few years later they might have been better. The current situation in industrial assurance was a complete transformation from the position immediately after the 1914-18 war, so that the 1929 Act in particular called for considerable revision. He was not so familiar with all aspects of the 1948 Act but it seemed likely that improvements could be made in that Act also.

The 1923 Act laid down precisely the method of calculating minimum free policy and surrender values; he was convinced that the small collecting societies in particular would benefit by a drastic modification of those conditions. Cash surrender values of free policies provided an example of how difficulties did arise. Where a society granted a reduced free policy of the minimum amount under the Act it was usual, on subsequent surrender for cash, for the society to allow the full E.L.T. No. 6 4% value of the free policy. A practice had grown up, however—and he thought it a good one—of allowing free policies for the full sum assured when premiums had been paid to an advanced age, and on subsequent surrender of such a policy it was not unusual for the society to be willing to give a surrender value equal only to the Act minimum, that was, 75% of the E.L.T. No. 6 4% value. It had to be borne in mind that E.L.T. No. 6 mortality rates were very heavy by current standards and that 4% was a low rate of interest for a cashing factor. An intermediate group of cases arose where a reduced free policy was granted within a few years before the age at which a full free policy was allowed, and where the free policy value was scaled up gradually from the Act minimum basis to the full sum assured. There was thus a range of advanced ages at which the society's policies were free policies calculated on different bases as regards the extent to which the Act margin had been taken advantage of, and for which on subsequent surrender for cash the society might feel unable to use a uniform cashing basis. The practical problem thus existed of recognizing the type of free policy, when an application for cash surrender was received. That was typical of the kind of problem which, while it could be minimized in a single large company, caused difficulty where many small societies were being considered, as had to be done in the consulting actuary's office, where they were concerned with issuing instructions that had to be reasonably intelligible to the ordinary clerk who dealt with a case for a particular society on only infrequent occasions.

The author had shown that the maximum sum assured was small in relation to the average income of members, compared with 1908. His figures showed how much the position had deteriorated even since 1948. Money values had been halved in the last thirteen years yet the maximum sum assured remained unaltered. To take a simple example to illustrate the point, right up to 1939 a house could be bought for little more than £300, and a £300 policy would

cover the bulk of an outstanding mortgage. It could be issued either as an endowment assurance or as a decreasing term assurance. Currently, who could buy a house for £500 or anything like that? They saw there that a whole range of activities previously open to collecting societies or friendly societies had been closed. In his view the proper lines of progress would be, first, a radical overhaul of the 1923, 1929 and 1948 Acts; secondly, a realization that industrial assurance had developed so that it differed little, except because of legislation, from ordinary assurance, and that no differentiation should be made between the two; thirdly, a determination to allow friendly societies (which he reminded them were mutual societies) to regain the relative position which legislation originally intended them to have and to retain that position in the future.

The introduction of the Trustee Investments Bill had opened a new line of progress for friendly societies, and they should take full advantage of the wider range of investments which would become available. Not only would there be the possibility of increased financial return, but also (and perhaps more important) those concerned with the management of collecting societies should feel much less restricted and, he hoped, would be led to consider much more carefully their general investment policy. In that connexion they would need skilled advice, and the smaller societies might well consider entrusting supervision of their Stock Exchange investments to the Trustee Department of one of the larger Joint Stock Banks, which had considerable experience in managing institutional funds. As regards mortgages, the collecting societies often had good local connexions which enabled satisfactory investments to be made, but local connexions and knowledge were not sufficient where Stock Exchange securities were concerned.

Mr D. A. Medcalf (a visitor) said that collecting friendly societies felt that they could not ask to be completely freed from restriction so far as sums assured were concerned. They had been collecting societies for, in many cases, over a hundred years, and they were prepared to abide by certain restrictions, but it did seem to them that there came a time when they had to ask not only themselves but also the Treasury whether they were being treated fairly.

It would be recalled that in 1948 the friendly society limit was raised from the then £300 to £500. In the 1948 Act there was also the new £20 policy which took the place of the funeral expense policy. In addition and for the first time a wife was able to insure her husband also up to £500, but if she did insure him for £500 then she herself could take out no further insurance with any friendly society. In 1958, a private member brought in a Bill in the House of Commons to increase the £20 limit to £30. The societies felt that if the Government did not oppose that Bill it meant that they agreed that the £20 should become £30, and therefore the Government obviously ought to agree that the £500 should become £750. For two years they had made approaches to the Treasury but without success. The author had mentioned that average earnings for 1959 were £600 a year. A friendly society member, under the 1948 Act and the amendment made by the 1958 Act, had the power to assure his parents and grandparents for £30 each. If he took out policies on two parents and two grandparents that was £120 of his ration gone, leaving him only £380 for his own life—equivalent to about 7½ months' earnings, which was a poor estate to leave to his wife and dependants. Societies felt that they were entitled to some uplift of the sum assured limits, although he would not himself ask for an uplift of the £104

annuity limit because in his view the level of national insurance pensions meant that not many friendly society members would want to effect annuity business with collecting societies.

The Trustee Investments Bill would obviously be of considerable help to friendly societies, but only if friendly societies could continue. It was no good having the powers to invest if new money was not coming in to be invested. He knew of a friendly society which was putting on 700,000 new industrial policies each year, which meant over 2 million policies put on in the past three years, yet there were fewer premium-paying contracts in force than there were three years earlier. Was that because more people were being insured for the full £500 and could not take any further insurance with any collecting society? He had heard it said that the large collecting friendly societies had outlived the confines of the friendly society movement. Why did they not convert themselves into companies? The procedure for conversion was really archaic; and in any event many friendly societies were not interested in conversion but were keen to remain as friendly societies. It was laid down in the 1896 Act that all a society had to do in order to convert was to pass a special resolution and then another one within a fortnight to a month affirming the initial resolution. In the 1923 Act it was provided that if within a month of receiving a copy of that resolution the Industrial Assurance Commissioner gave notice of his objection, that conversion could not take place without the sanction of the High Court. As Mr Wright had mentioned, the 1923 Act also entitled a friendly society with a membership in excess of 100,000 to petition the Court to be granted conversion rights, but the Court had to be satisfied that on a poll 55 % of the members of the society were in favour of the conversion. He wondered how many members of a friendly society cared whether they remained in a friendly society or whether it was converted. They merely wanted to be sure that the sum assured, with reasonable bonuses, was paid when the policy matured. It was old, cumbersome procedure, and the difficulty was that although the 1923 Act laid down that an agent or a superintendent of agents should not attend an annual meeting, so that the agency staff could not have an undue influence over the running of the society, nevertheless, if the society wished to convert it was still in the hands of its agency staff. It had to carry the agency staff with it because it was they who would have to take the forms to the members to get the members' assent or dissent. If the agency staff thought they could hold the Committee of Management to ransom they could say, 'What amended terms are you going to give us if conversion takes place?' And if a committee of management were keen on converting they might go that little bit too far in buying the support which they ought not to have to seek.

Another difficulty that certain societies had to face was that the larger the ordinary branch fund the greater the impact would be when income tax had to be paid. Working expenses in the ordinary branch were considerably lower than those in the industrial branch, and in one society known to him it would mean a payment of round about £300,000 a year for income tax straight away. If they regarded it from the point of view that a valuation surplus might be cut to 75 % they would appreciate the difficulty of the particular society if it wanted to convert. Would it be right to risk reducing the bonuses of the existing members for the benefit of possible greater gains to future members as well as to existing members in the future?

Mr D. B. Dickson, F.F.A., found the paper depressing reading, mainly because it exposed the two weighty problems which had been perturbing responsible people in the collecting society world for some years. He thought it was significant of the general malaise which overhung the collecting friendly society movement that those two items had been mentioned in almost every speaker's remarks so far: namely the limitations on sums assured and on investment. The opener had listed several other disadvantages, but from practical experience he thought he could live with the others so long as the two that he had mentioned were satisfactorily adjusted.

The author had shown in §4 that because of the limitation on sums assured the collecting friendly societies were no longer capable of providing the life assurance requirements of the working man. He was told by salesmen of life assurance that he should be covered for at least twice his gross annual income. It could be seen from the table how pitifully inadequate the ration was for a full life assurance service, and on any basis of comparison with 1908, whether by cost of living index or by wage index, the current statutory limitation was quite obsolete. In recent years they had grown accustomed in the ordinary branch to hiving off the excess over their limit to more fortunately placed companies, but the suggestion made by the author that they were now bumping on a ceiling in industrial assurance also could be confirmed. The difference between societies and companies in average new business sum assured was only £3 11s. in 1936 as compared with £11 10s. in 1959, and, while those figures were scarcely conclusive, there could be little doubt that the £500 limit depressed the size of the average new policy in the societies. In those circumstances their connexions would inevitably drift to life assurance institutions that could provide the whole cover required.

They were not, however, so much concerned with the past as with the prospect that faced the societies of a continuance of the steady diminution of their powers to offer a complete home service. It was not beyond the bounds of imagination that, if the progression shown in Table 1 continued, their maximum sum assured in 1968 would become half of the average earned income per annum. At what point would they lose their appeal to the public on the ground of their inability to supply the commodity required? He was reminded, as an analogy, of the familiar multiple concern which would have gone out of business had it retained the top price of its articles at sixpence! The recent refusal by the Government to reconsider the limitation after the submission of a well-argued case, based on facts which could scarcely be more favourable, forced societies to the conclusion that Treasury policy had hardened against tax-free institutions. If that were so and societies could look forward to no relief under that heading, then at least they could dispose of one imponderable in deciding their future course. He felt that it was incumbent upon the authorities to say whether the relief on sum assured limitation, which had always appeared imminent, would never in fact materialize. It could be seen from the paper that that was not mere idle curiosity but a vital factor at a crucial point in the history of collecting friendly societies, and one which could help solve the basic dilemma which the paper postulated.

The other limitation, namely, that on investment, which through its sterile influence had cast a shadow on the affairs of friendly societies, was, they trusted, shortly to be removed. The powers of friendly societies with regard to investments were not, of course, derived directly from the Trustee Acts but from the

Friendly Societies Act, 1896. The emancipation which the societies might shortly enjoy was not of primary concern to the drafters of the Bill, but nevertheless it was welcome, and perhaps it would not be ungrateful to say that it was fifteen years late. In 1946, the investment managers of the life companies were turning from Treasury $2\frac{1}{2}\%$ at par to equities yielding 4% , while societies sought relief in feu duties and ground rents at $3\frac{3}{4}\%$. Good quality feu duties were currently being sold at twelve years' purchase, representing a book loss to the societies of over half their original investment, and no one needed reminding of the success story of equities over the last fifteen years—a story which had enabled the companies comfortably to ride the depreciation on their fixed interest securities. How different was the current situation, when the investment adviser to the trustees of a collecting friendly society might open his new investment ledger and find that good class debentures were yielding $6\frac{1}{2}\%$, and the equities which he would like to have in his portfolio were yielding perhaps half of that. The perversity of affairs to a friendly society official was apparent. With signs of inflationary tendencies re-appearing a move into equities was surely essential, and, coupled with a judicious mixture of high coupon preference stocks in companies with a high net U.K. rate of tax, a working formula which would at least maintain the current yield basis on their funds could be found. A large incursion, however, into high class growth stocks was a luxury which might have to be forgone for the time being, in view of the lean yield on their existing funds. At least the stagnation of investment thought which had been engendered by years of study of local authority loans would be smartly dissipated.

The disadvantages of registration under the 1896 Act had been mentioned, and it might be that sufficient had not been made of the tax concessions. It had been stated in the discussion on one of Mr Britt's papers that it was both illogical and inequitable that a man should be allowed to enter the tax-free fund of a society and yet be subjected to indirect taxation if he entered the ordinary branch fund of a company. In rebutting that contention it was sufficient to state that the average net yield on the O.B. funds of 43 leading life offices in 1959 was £4. 16s. % as compared with £4. 12s. % for societies.

In §29 the author supplied a very adequate answer in reason (iii) to the charge that the solution to their problem lay in their own hands. In the speaker's view reason (i) was unsatisfactory, in that a successful past was no guarantee of success in the future, with circumstances so widely altered. On reason (ii) he was entirely at variance with the author when he implied that a bout of inflation had come to an end: there were many symptoms in national affairs which would suggest the opposite. A further reason could be added: the ponderous legislation of 1896 was concerned with small friendly societies and, as had been mentioned by previous speakers, the mechanics of conversion were so difficult that only the direst necessity would encourage a change on the part of a society which had nation-wide connexions.

If the collecting societies were indeed left to contemplate industrial assurance within the framework of the Friendly Societies Act, 1896, and the Trustee Acts, 1921 and 1925, without the promise of some relief in the assessment for taxation purposes of the O.B. fund of a society which was reconstituted, then perhaps the appropriate equipment was not a strait-jacket, as suggested by the author, but a stretcher!

Sir Cecil Crabbe (The Industrial Assurance Commissioner) (a visitor) expressed his pleasure at being present at the discussion, which he had found most interesting.

On the question of dissolutions, rightly or wrongly, as an administrator, he had taken the view that dissolutions should be discouraged if it was at all possible to effect a transfer of engagements to a society, perhaps conveniently situated locally, or to some national society offering similar benefits. The reason for that was that he very much regretted the gradual dwindling of an old established local society which had fallen below 100 members, and ultimately the last few members were going to be able to carve up all the funds between them.

On the subject of transfers of engagements, he knew that such arrangements were not popular among collecting friendly societies. It meant, of course, that an accepting society had to have in its tables almost in perpetuity a table which came from the transferring society. That seemed to him to be troublesome and a burden. He could quite understand that the accepting society might regard it as a nuisance, and therefore might not be willing to help the lame dog over the stile because of the administrative inconvenience attached to having an ancient table from the transferring society among its own tables. His department had been wondering whether the difficulty could be overcome if, when a transfer of engagements was being considered, the transferring society could be persuaded in the early stages of the negotiations to amend its rules and tables beforehand so as to fit in as nearly as possible with one of the tables in the society which was proposing to take it over; and if that amendment were brought about before the transfer was effected, then the administrative difficulty to which he had referred of a large society coming to the rescue of a dying society which lacked efficient administration might be overcome. He felt that might be an easy way out of the problem.

Reference had been made to the 31 societies mentioned in Table 2 which were dissolved by instrument. He thought an explanation of that large number might be that many of them offered both sickness and life insurance benefits, and when the National Insurance scheme of 1948 came into operation members thought that the scheme was going to supply all their needs and therefore there was no need for them to supplement their benefits by continuing to make voluntary provision of their own. Regrettably, then, some of those societies—where perhaps the majority or a large part of their debit covered sickness insurance—melted away.

Where a friendly society, as distinct from a collecting friendly society, said that it was proposing to dissolve, his department pointed out the advantages to members of making voluntary provision of their own to supplement the state benefit, so as to encourage it, if it was at all possible, to remain in being, or if that was not possible, to transfer its engagements to a larger society operating in the neighbourhood and offering similar benefits.

Another matter which had interested him very much was the subject of book interest. He would not say whether he liked it or disliked it. What his department had ruled administratively was that if a society was going to buy up the books held by agents it must do so out of its management fund.

With regard to the quality of agents, he emphasized that what he was about to say might not be the current experience of those responsible for the management of collecting societies, but in the past his experience had been, from the many

agents appearing to give evidence before the Industrial Assurance Commissioner in disputes referred to him, that the agent who was whole time in the employment of a society and who had not an interest in a book often seemed to be more efficient than the agent who held a collecting book. There were (or had been in the past) some old crocks and younger men in failing health who could not stand the strain of a factory life or hard manual work but who felt able to scrape together enough money to pay the deposit for a collecting book thus enabling them to have an outdoor life.

Mr A. Duval, in closing the discussion, referred to the question of expenses and the cognate problem of book interest. It had been emphasized by some speakers—but not perhaps as much as it might have been—that at least in the larger offices the problem of agency expenses was basically one of organization and not simply a problem of buying out book interest and reducing commission rates. The starting point was that an office had a full-time agency force, and those full-time agents had to be paid sufficient to retain them. It was a management problem to ensure that the work of the agents was organized so that the expense to the policyholder could be kept to a minimum. That brought out the point that there was little value in buying out book interest unless, by doing so, it was possible to reorganize the agency arrangements and thereby achieve a saving in expense: it was essential to achieve greater concentration of debit or possibly to arrange less frequent collection of premiums.

The opener had pointed out that in practice there was not the distinction between monthly premium business and weekly premium business that might appear on the surface; in fact, many monthly premiums were collected weekly and, for that matter, a great number of weekly premiums were collected fortnightly, monthly, or even less frequently. He felt that the author's statement in his paper—that the largest book interest office had the lowest rate of expense simply because of a high proportion of monthly business—did not take that fact sufficiently into account.

Book interest had been criticized, and also vigorously defended by Mr Lamb, who nevertheless had some reservations in certain circumstances. Incidentally, with regard to the Commissioner's remarks, it was perhaps not generally realized that the larger book interest offices refused to appoint as agents any old crocks or men in failing health and insisted that incoming agents were acceptable to the office so as to ensure that the agents appointed were likely to be capable and indeed progressive. Although in certain offices book interest might cause difficulties in concentrating debit and in bringing down the average rate of collecting commission, it had been possible in some offices to do both those things without buying out book interest. As a result, there were book interest offices where debit was very largely blocked and where the average rate of collecting commission had been brought down because new tables had been introduced at lower rates of commission. In those offices it was most unlikely that buying out book interest could possibly be followed by sufficient saving in expense to justify the buying out, and although there were certain shortcomings in book interest they were not necessarily as severe as those Mr Lamb mentioned.

The second part of the discussion had turned primarily on the future of collecting societies; whether in fact they had any future. He had been rather surprised that nobody had asked whether there was any future in industrial assurance at all. It had often been suggested that with the growth of the

'affluent society' industrial assurance generally might have outlived its usefulness. He was not certain just what form industrial assurance would take in the future but he was quite certain of one thing, and that was that the home service arrangements for the collection of premiums and for the securing of business would go on, if only because they provided what was by far the cheapest way of collecting life assurance premiums and, indeed, administering life assurance business.

As far as the collecting societies were concerned, it all seemed to turn on what the hopes were of some easing of the statutory limits on the sum assured and on investment powers. He would not like to speculate on that; perhaps the author would do so in his reply. But he was sure that, whatever the legislative provisions in future, the managements of the industrial assurance offices, both the companies and the collecting societies, would seek, as they had in the past, to administer their businesses with the aim of giving the best possible return to the policyholders.

The President (Mr J. H. Gunlake, C.B.E.), in proposing a vote of thanks to the author, said that almost exactly 349 years ago, in a sister hall to theirs—the Middle Temple hall—there had taken place what was believed to be the first performance of Shakespeare's *Twelfth Night*. Towards the end of that play, when the turbulent waters of tragi-comedy were subsiding into the calm of general content, and it fell to Olivia to set, as it were, the official seal upon the end of strife, she kindly remarked of Malvolio that 'he hath been most notoriously abused'. It was not for him as President to speculate whether the Industrial Assurance Commissioner ever felt like Olivia, but for his part he never thought of the subject of industrial assurance, and of the companies and societies which undertook it, without remembering that comment on the unhappy Malvolio. To the younger generation of actuaries that might seem a strange reaction, but many of those present could recall, with some clarity, the years of controversy and the attention that once was lavished upon the business. Commissions and committees had sat upon it; journalists, too, had done their best to sit upon it in a different sense; politicians and publicists, not always quite disinterested nor wholly unambitious, had written acidulous books about it; and Parliament, in its wisdom, had seen fit to regulate it and, in the process, as all the speakers in the discussion had reminded them, in some ways to hamper and damage it. If currently they heard less of that kind of hostility could it be because the responsibility for paying death grants was shared by a state invasive by inclination and impeccable by definition? Salesmanship, it seemed, ceased to be 'high pressure', and consequently deserving of condemnation, when it achieved its ultimate form, that of inescapable compulsion. A high lapse rate could be pretty effectively cured by Beveridge universality, and since those who emigrated were, after all, a minority of no particular political significance, they could hardly presume to claim such a thing as a statutory surrender value. The expense ratio of the National Insurance scheme was unlikely to become excessive so long as employers remained its collectors, and no one expected the state to earn a high rate of interest or to distribute generous bonuses. Few, indeed, would accuse the state of making unfair profits, and currently no one asked—oddly enough, hardly anyone ever had—whether an undue and unseemly prosperity was enjoyed by the undertakers and caterers who were such prominent beneficiaries of funeral expense policies. But he would not be uncharitable. If state intervention and participation sanctified all forms of

social security, at least they seemed to be accompanied by some relaxation of unjustified criticism, and the fact was that, as Mr Fisher had indicated, the industrial assurance companies and the collecting friendly societies were still doing immensely valuable work in what was in many ways a happier atmosphere. Yet the legacy of the restricting Acts remained with them still.

The payment of small sums on death was a practice of great antiquity in the friendly society world, but the great efflorescence of industrial assurance stemmed, of course, largely from the Industrial Revolution. At the heart of all economic systems, new or old, eastern or western, there lay two necessities: the redistribution of wealth between successive generations and between contemporary individuals, and the allocation of the fruits of production between consumption and saving. In both those activities, life assurance—including industrial assurance—played an important part, and the more widely it was spread over the population the more important it was. He was glad, therefore, that the discussion had underlined in no uncertain terms the many factors which might jeopardize a satisfactory future for the collecting friendly society movement. Clearly two of the most powerful factors in that future would be sensible state control, and the investment aspects discussed in §§23 and 24 of the paper.

After a discussion which had been both wide and deep he would not detain them further, save to remind them all of something which it was easy for them to overlook, namely, the pride that they could justifiably take in the part that actuaries had played, and continued to play, in the safety and prosperity of the institutions they had been considering.

It was rather surprising that the last occasion on which the subject was discussed was what he might call 'void for uncertainty'. It must have given Mr Fisher great satisfaction to fill the gap—a task which he had indeed carried out most ably—and to listen to the excellent discussion which his paper had evoked.

The Author, in acknowledging the vote of thanks, said he had expected more criticism of some of the statements in the paper, but there seemed to be more agreement than he had anticipated.

Mr Lamb, in speaking of book interest, had recognized that it did shackle the organization of an office and felt that it would be better to obtain control of all the debit immediately. That was an excellent idea in theory, but it might well be beyond the capacity of the office to be involved in the task of re-organizing all the debit at once and at the same time continuing the necessary service of the members week by week. Inevitably, if the task was tackled gradually, the early days would be difficult, for reasons which Mr Lamb mentioned, but after the transitional period of the first two or three years it should be possible in the larger offices, where sufficient debit was available, to organize the arrangements so as to provide a reasonable salary and incentive to a new man taking over on lower commission terms.

Mr Wright had mentioned a point regarding the taking over of collecting societies, feeling that there was scope for new business in taking over such a society. His experience was that the lives were very old, on average, in a small society; many men in the fifties, sixties and seventies would appear on the list, and the new business from the younger members of those families had probably already been secured elsewhere. It was also his experience, as a rule, that the funds were quite solvent. The expense ratio of the society for the time being

might be quite high, but at the same time the funds had accumulated largely because very often no bonuses had been declared. The accumulated funds were quite strong, and were it not for the depreciation of assets, which unfortunately sometimes reduced the fund by as much as a third, the society could be taken over on at least as good terms, possibly, as the larger society was operating.

Regarding Sir Cecil Crabbe's remarks on taking over, he would not like the idea to be afoot that the larger societies were unwilling to help the lame dog. He did feel that if a society approached one of the larger societies with a view to transfer, that larger society would do its utmost, in spite of the difficulties, to complete the transaction and to honour the engagements of the smaller society. The very valuable suggestion that Sir Cecil had made regarding the alteration of the sums assured by means of a resolution of the smaller society before transfer would be helpful in many cases. A difficulty, in the current conditions of high bonus rates, was that the bonus-earning power of the transferring society would probably not equal the current rate of bonus of the larger society. In a case of which he had some experience the accepting society had asked the smaller society to pass certain resolutions before coming over, in order to simplify bonus arrangements.

Mr Scholey had referred to the aim of the reduction of expenses by 75 % of the commission savings on the purchase of book interest, feeling that somewhere between 60 % and 66 $\frac{2}{3}$ % would be more appropriate. Much would depend upon the size of the society and the number of books which would need some augmentation of pay in order to make them attractive to the agents. If sufficient debit were available so that the book itself would yield a reasonable living to the man, then the making up of those smaller books was not necessary and higher savings would be possible.

He preferred not to speculate on the future of limits or of tax possibilities. He would only say that he felt that something had to happen. The word 'dilemma' had been used. Undoubtedly some societies were giving very serious thought to their position in the future, and he was sure that the sooner the Government departments made it quite clear what their lines of approach to the problem were, the sooner would those societies be able to decide where their future lay.

The following written contributions have been received :

Mr K. J. Britt: I regret being unable for health reasons to be present at the Institute meeting for the presentation of Mr Fisher's paper. I have read it with great interest as it touches on many different aspects of industrial assurance although, as the title implies, the author pays special attention to the friendly societies' angle.

Friendly societies are by their constitution mutual and theoretically all the profits belong to the members. If there are no unfavourable conditions at work, they should, on account of their immunity from tax on investment income, be able to give better benefits in return for a given premium than other kinds of offices transacting industrial assurance business. But, as the author points out, collecting friendly societies have been working under restrictions. Investments have been virtually confined to trustee securities which have been less remunerative than other types of securities. Probably the original reason for limiting the investments of such societies to trustee securities was that many of them were small and local, and their officers and committees were not experienced in

finance, but the situation has changed, and the passing of the new Trustee Investments Act will give them greater freedom.

In another respect the collecting friendly societies have been able to make only a low rate of profit for, as the author shows, the expense rate of societies, although now declining, has been higher than that of the companies. The existence of book interest in many societies, which has reduced the possibility of change in the terms to the staff, has no doubt had some influence on the expense rate. Mr Fisher shows that there is a tendency to extinguish book interest by purchase, and has thrown some light on the problems involved in financing such transactions.

The author mentions that societies are required to keep separate accounts for the contributions received under different tables. This is desirable when varying rates of commission are paid and when the amounts which may be spent in management expenses vary with the table, but there seems no reason to assume that separate accounts require separate assets for the funds accumulated, nor does it seem necessary that there should be separate matching of assets with liabilities for each table. This could in practice lead to difficulties where assets in a small separate fund had to be realized at a loss during a period of low prices for securities.

Although mentioning the £500 limitation of sum assured, the author admits in §6 that in practice the limit is £1000 under two policies, meaning presumably one policy for £500 by the husband on his own life, and another policy for £500 by the wife on her husband's life, both husband and wife being members of the society. There is no evidence in Table 4 that societies have suffered severely compared with companies in the Industrial Branch because of the existence of the £500 limit. They may well have suffered in the Ordinary Branch, but is there any reason why, in the Ordinary Branch, members of a collecting friendly society should have preferential tax treatment, compared with the policyholders in a mutual life office who may be no better off financially than the friendly society members?

It is pleasing to find that over a period of years there has been a steady reduction in the lapse rate which, however, has been found in America and Australia to be lower for industrial assurance than for ordinary life business. No comparison is possible in this country, except in those offices where both classes of business are transacted.

There are comparatively few cases where no paid-up policy or surrender value is granted on the discontinuance of premium payments, but even in such cases there has been cover for the full sum assured for a period longer than the duration of premium payments. Methods of remuneration to agents encourage the conservation of existing business.

The author makes few predictions as to the future but there seems no reason to suppose that industrial assurance, whether transacted by companies or societies, will not continue to make progress on sound lines. It will be desirable for business to be transacted for longer terms under endowment assurances, and perhaps methods of remuneration and bonus systems can be adapted to encourage this.

Taking the business as a whole, a noteworthy feature in recent years has been the great extension of profit-sharing, particularly in the proprietary offices. The percentage of profits allotted to policyholders is now very similar to that prevailing in ordinary life business. The distribution of these large sums has posed

some interesting problems of equity as between policyholders of different durations and under different types of policies, and the discussion of these problems at the Institute would be most useful and interesting.

Mr A. C. Edwards: There are some points, contrary in part to the general run of the discussion, that I would have made had time permitted.

I should like to take issue with the author about the way in which he refers to companies' income tax in §24. For example, he uses the phrase 'Even if one takes the effective rate of tax at 2s. in the £' and he goes on to refer to 'the further real growth in income likely to transpire'. The fact is that once a company reaches the stage of being taxed on interest less all expenses, the excess interest is taxed at 7s. 6d. in the £. And any subsequent increase in the excess interest is taxed at 7s. 6d. too. Indeed, one can argue that the proper view is that the companies are taxed at 7s. 6d. in the £ on the whole of their investment income and are allowed relief of tax on part, or in some cases the whole, of their expenses.

The author and some of the speakers are clearly concerned with the relative position of societies today in the matter of investments and yields. But, as Mr Scholey mentioned, societies have done well from their mortgages, etc., in the past, and I wonder if the present situation may not be only the other end of the swing of the pendulum, a swing about to be reversed if the Trustee Investments Bill becomes law? For a simplified example, I have compared the net yields, derived in the ordinary way from revenue accounts, of one large society and one company over a number of years.

I found that it is not so many years ago that the company's ordinary branch yield caught up with that of the society. Prior to that the society's yield had had several shillings advantage. Indeed, if one turns to bonus declarations, there was one by the society covering a period of years at a rate almost 10s. % greater than the average of the company's bonus rates for the same period. Two bonus declarations later, the society still had a small advantage over the company's average rate for the corresponding years. These comparisons are, I believe, not untypical of the recent history of the relative positions of society and company ordinary branches.

The comparison of yields in the industrial branch was, of course, rather different. The net yield of the company caught up several years earlier. A comparison of various offices' industrial branch bonuses, however, would be difficult because of the variety of methods adopted. Even an attempt to compare surpluses, or the proportionate division of surpluses, is made difficult by the varying levels of contractual benefits for a given premium. As a perhaps rather extreme example, if office A has contractual benefits which are about $7\frac{1}{2}$ % greater than those of office B, then on the popular 15-year endowment assurance table that difference is equivalent at maturity to a bonus of 10s. % per annum. And if all else were equal, office A's surplus would, of course, be less than office B's.

Reverting to §24, I note that the author writes that 'the limited income tax concession and other minor privileges are no compensation for loss of freedom of investment in this modern day'. While nobody appears to expect the Trustee Investments Bill to lead, in the next Finance Bill, to income tax changes adverse to societies, the author and some speakers appear to link the income tax concession with loss of freedom of investment. Is not the real reason for the income tax concession indicated in the Income Tax Act—namely, the restriction on the

amounts of benefit that societies may insure? And as a further thought on that point, might not the societies' exemption from the continuing high rates of tax, coupled with their members' being able to claim the usual tax relief on life assurance premiums, be the real reason for the authorities' apparent unwillingness to relax again the benefit restrictions imposed upon the societies? The rate of tax from which the societies are exempt is a valid factor, as well as the change in the value of money.

Mr Geoffrey Heywood: Like many speakers in the discussion I particularly welcome the submission of this paper to the Institute because it gives those of us who are concerned with advising these organizations the opportunity of discussing some of the present-day problems. It is true that many of the problems of the larger collecting societies are similar to those of industrial assurance companies, but there are many matters which concern societies alone, especially the small societies.

Collecting societies fall into two very distinct types—the opener drew a line at a premium income of £8000 per annum, above which we have the larger societies whose problems are quite different from those of the societies whose income is below this level. These small societies all show similar features at the present time. In the first place there is usually a steady decline in membership because as older members die or lapse they are not replaced by a sufficient flow of new entrants. These societies were never designed to compete with the more aggressive business methods of the companies and larger collecting societies and so it is almost inevitable that this decline in membership should take place. In many cases also their tables do not include the more attractive types of policy, such as the quinquennial endowment or the short-term endowment assurance, with the result that they are not able to offer to prospective members those types of policy for which there is at present the greatest demand. Moreover, the agents of these societies are usually part-time and they therefore do not have sufficient time available, nor the experience, to be able to canvass successfully for new business. The management committees and trustees are also part-time and as their main job in life is usually quite unconnected with the business of insurance, they cannot be expected to be conversant with present-day problems in the business. Fifty years ago when the small collecting societies were progressing well, these committees were adequate for the simpler problems of those days and indeed they did an excellent job of work at little or no remuneration, but in present circumstances they cannot hope to compete with the larger organizations. Again, replacements for these officers are not forthcoming because such remuneration as they obtain is small by current standards and the present officers have largely continued in their capacity out of loyalty to the society with which in many cases they have had a lifelong association. In fact, it is often the resignation or death of the secretary or treasurer of a society which first brings up the question of its whole future.

The second main feature of the small society is the ever-increasing burden of expenses arising directly from inflation. Coupled with the fall in membership, to which I have referred, the effect of increasing expenses is to produce an expense ratio which in many cases can be as high as 50 % and in some cases as much as 75 % or even 100 %. The author refers to one society seeking transfer in which the expense ratio exceeded 75 %, but he appears to defend this because the interest income was greater than the premium income. In my opinion, there

can be no justification for continuing an organization in which 75 % or more of the premium income is used up in expenses.

What should the actuary do when he is confronted with the problem of advising the small society in the circumstances outlined above? It is quite clear that to try to carry on is, in the majority of cases, merely putting off the evil day, because at the next valuation the membership is almost certain to be lower and the expenses to have grown yet again. One is left, therefore, with the alternative of either a transfer of engagements or dissolution and it is usual in the first place to try to arrange a transfer so that to some extent the objects of the society can still be continued. The transfer is not, however, often attractive from the larger society's point of view, although some larger societies are prepared to accept a transfer in the interests of the friendly society movement as a whole. The members on the other hand usually prefer the alternative of dissolution, especially when they realize that this means an immediate share-out of funds. Perhaps, however, in some ways it is the kindest answer, especially since the small society probably does not operate an automatic free policy scheme, still only grants the minimum cash surrender values and free policy values under the legislation, and gives bonuses only because of surplus due to lapses. It is, however, always something of a sad occasion to be concerned with the dissolution of a society which has been in operation for 150 years or more.

The position of the larger societies is not by any means so gloomy, but nevertheless represents a challenge to those operating them. The opener outlined many of the disadvantages of a friendly society constitution, but I think there are really three major disadvantages which are of much greater importance than all the others. These are the £500 limit, the rigidity imposed by the legislation through the medium of a set of rules, and the limitation on investment policy. Many have spoken of the disadvantages of the £500 limit and I make no further comment. The legislation is now over 60 years old and was designed for societies operating in completely different circumstances from those of the present day. It is most discouraging not to be able to make a special quotation to a potential member because the type of policy is not specifically mentioned in the rules. The requirement of transfers to management of differing percentages for various tables requires the collecting books to be divided into many sections and this added administration is carried through the agents' account sheets and all the district and chief office records. These are examples of many similar irritating difficulties. The third disadvantage will be removed to some extent if the Trustee Investments Bill becomes law, but the author has pointed out that this particular piece of legislation was not designed with collecting societies in view and so there will still be restrictions which do not apply in the case of companies. (In this connexion, I must disagree strongly with Mr Scholey, when he suggests that after these powers are received societies might hand over their investment problem to the trustee department of a bank. Surely this is a proper activity of the society's consulting actuary). These three disadvantages appear to make the case for changing from the constitution of a friendly society to a company almost overwhelming.

The only disadvantage in making the change appears to be the income tax liability, but this is unlikely to be a problem in the industrial branch, and even in the ordinary branches of some societies of which I have experience it is not such a considerable problem as the author seems to suggest. If one is convinced that the change to a company is to the long-term advantage of the society and

that any short-term reduction on the yield on the fund is outweighed by the removal of the £500 limit, by greater flexibility and by the ability to adopt a better investment policy, then I would suggest that the tax question is not really a serious problem.

Many speakers, and notably Mr Medcalf, emphasized the difficulty of changing the constitution and the work involved in getting the consent of a sufficient proportion of members. Such consent, however, is not required under the 1896 Act and only arises if the Commissioner objects to the conversion under the powers given to him by section 38 of the Industrial Assurance Act, 1923. How do we know that he will object? If the conversion is to the advantage of all parties, particularly the members, then one would not expect him to object and it is significant that in the one case which has taken place in the last 37 years no objection was made. A conversion, therefore, appears more likely to proceed on simple lines as suggested by the opener than to be the almost impossible exercise indicated by subsequent speakers.

Mr S. S. Townsend: This paper provides an opportunity to say something which may help to remove a misapprehension which I think still exists. Because the range of problems coming before the industrial assurance actuary may be thought to be rather narrower than in the case of his ordinary life colleague, there is sometimes a feeling that he is leading a more sheltered existence. Some weight may have been lent to this by the fact that it is 24 years since the last sessional paper on industrial assurance. But in recent years, at least one paper in each session will be found to have as much relevance to industrial as to ordinary life assurance. The various papers on matching of assets and liabilities are just as important in industrial as in ordinary life assurance. Again, Benz's recent paper on bonus distribution, written largely from the ordinary life angle, has, in view of the now widespread bonus schemes in industrial assurance, just as much interest to the industrial assurance actuary.

I grant that industrial assurance does not have the problems associated with annuity and group pension business. On the other hand, ordinary life assurance is freer from the statutory requirements with which industrial assurance is cumbered. While many of these seem simple enough, the very fact that they are statutory often introduces a variety of unusual and peculiar problems.

It has been interesting to me in recent years to hear young Fellows, who have spent their early career in ordinary life assurance and then moved over to the industrial side, say how pleasantly surprised they had been to find such a wide and interesting range of problems in industrial assurance. I am sure these views would be no less strong after reading the paper.

No paper on industrial assurance, says the author, would be complete without some reference to lapses. It is perhaps not as widely recognized as it should be how close industrial assurance has moved to ordinary life assurance as regards benefits on lapse. The author refers to the now customary qualifying period of one or two years for a free policy: he might indeed have expressed this more strongly by saying that in offices which account for over three-quarters of the total business one year is, in fact, the period for automatic free policy rights. I use the word 'automatic' deliberately because there is no question of the office failing to grant the free policy if the policyholder forgets to ask for it; it is allowed automatically on cessation of premiums. As regards the values given, several offices now use the proportionate method for calculating free policies

and in one office at least the whole structure and basis of surrender and free policy values is the same in the industrial as in the ordinary branch. A further pleasing feature is the significant fall in first year lapse rates in recent years.

I would like to take the author up mildly on one point if only to correct an impression that may be left in the student's mind. In two places he uses the words 'many offices' as now doing this or doing that, which, while correct, somewhat understates the real position. Many offices, he says, allow cessation of premium payments at advanced ages: I find that the offices which do this account for over 99 % of the total business. The concession is, in my experience, very much appreciated by policyholders and I am surprised that it is not more common in ordinary life assurance. Again, he says, in many offices reversionary bonus systems now apply: in fact, offices which account for over 95 % of the total business have reversionary bonus systems in some shape or form.

The author mentions a few specimen average premiums on new business. I hope any feeling that industrial assurance may still be living in the 'penny a week' era is dispelled when I say that the current average new premium is the equivalent of about 1s. 9d. a week: indeed, in one leading office the average for new monthly business, which represents over three-quarters of the total new premiums, is over 10s.

There are many actuaries who will recall that in the past when industrial assurance was being discussed at the Institute there was as often as not a note of embarrassment. The discussion would frequently have arisen as the result of the report of a committee of enquiry and these reports usually contained a number of strictures on the business. Although the industrial assurance actuaries who took part in the discussions were able to put these strictures into correct perspective, there remained inevitably a feeling of 'no smoke without fire'. How pleasant it is in this day to be able to listen to a discussion on industrial assurance without having to look over one's shoulder half the time.

The Author subsequently wrote:

I have now had the advantage of considering a transcript of the discussion together with the written contributions. The latter have added much to the balance and breadth of the discussion, and I particularly like Mr Townsend's reminder of the similarity of problems and, indeed, of much of the practice, of industrial and ordinary life assurance.

Mr Britt and Mr Edwards rightly ask, directly and through reasoned argument, whether societies should expect to be placed in a preferential position regarding income tax. To this I would reply that they do not wish to be, but they do want to be in a comparable position. In speaking of an effective rate of tax of 2s. in the £ in the industrial branch, and of a reduction in yield from £4. 12s. 2d. % to £3. 12s. 1d. % in the ordinary branch I was simply stating the practical effects of tax. I was not referring in §24 to the question of limits of sums assured, (which is linked by the authorities to the tax concession) but purely to the aspect of investment freedom. The larger societies would have higher net yields today and much more satisfactorily spread investment portfolios, if they had been subject to tax but had had investment freedom, even accepting the £500 limit.

Mr Fraser and Mr Heywood think that the taxation problem in the ordinary branch, following conversion, could be fairly easily overcome. In some societies it undoubtedly could, but in the larger ones the problem is by no means easy. We find a large fund narrowly invested and carrying heavy depreciation, prob-

ably covered only partly by investment reserves in spite of heavy transfers. The society has to allow for the full incidence of tax immediately, hoping by broader investment policy to increase the gross yield. It would probably take from five to ten years to restore the net yield, and if virtually all the business is with-profit a competitive bonus rate necessary to increase new business will be difficult to produce. Mr Fraser's solution of house purchase mortgages might produce the new business but would hamper the widening of investment policy. If cash available for investment and re-investment amounts to 10% of the fund per annum I feel that a rate of tax increasing gradually over five years to the full rate would represent a justifiable concession.

There is a divergence of view as to the actual mechanics of conversion, Mr Wright and Mr Medcalf feeling that the 55% approval must be faced, whereas Mr Heywood would rely solely upon section 71. If this were attempted in a large society with strong agents' unions, it would be essential to carry the staff with the management on any such proposal. It seems to me to be necessary to test the Commissioner's view beforehand as to what procedure would need to be followed if a few dissenting members made their views known. Clearly, to start on a section 71 conversion and then to find that a nation-wide referendum had to take place would be wholly unsatisfactory.

There was no divergence of view as to the respectability and the desirability of industrial assurance, from both the individual and the national standpoint. It has suffered in the past from a bad name, in more senses than one, and I look forward to the implementation of a broader legal supervision referred to by Mr Scholey, embodied in the 'Home Service Insurance Act, 19.....'. Finally, with many other actuaries, I share the President's feeling of pride in the part which we play in the stability and prosperity of the business.