

STATE INSURANCE AND WORKMEN'S COMPENSATION.

(By Mr. W. E. Gray, B.A., LL.B., General Manager and Secretary, Employers' Liability Assurance Corporation).

(Continued from last week.)

Having shown the two methods of procedure, I now draw your attention to the results. It is a little difficult to get figures that exactly correspond, but I will take the figures of the Employers' Association for six years: these show that out of 1,667,131 awards there were 306,769 appeals to the Arbitration Court, or 18 per cent.

Now in the United Kingdom in the last six years the figures of the Home Office returns cover seven groups of trades, and show that there were 2,481,644 cases in which compensation was paid, and Part II. of that return, dealing with legal proceedings, shows that in those seven groups of trades there were only 972 appeals to the Court of Appeal, or not quite .04 per cent.

In respect to appeals to the final Court of Appeal the difference is even more marked, but the above statement is sufficient for the present purpose. I am not putting forward that these two groups are exactly comparable, because they are not, but they illuminate the point I wish to put before you—that under the State system, so far from their being no friction or litigation, the friction and litigation is enormous, while under a system of free insurance competition it is almost negligible.

POLITICAL PRESSURE.

There is one phase that might operate in favour of the State as against the companies, but that is never brought forward in argument, though it is undoubtedly in the minds of some organisations, and that is "political pressure." Just how this might work each of you can think out for himself. It would be, of course, more pronounced in some States than others, but it is a two-edged weapon and I do not do more than refer to it in passing. I come now to what I think is the most important and most used argument against the insurance companies and in favour of the State, and that is the question of cost.

The charge against the insurance companies, both on the part of the employer and the employed, is that a particularly small part of the premium ever gets to the injured man, that an insurance company takes its acquisition expenses (which we know as commission), its management expenses on a generous scale, and a huge amount for profit; while if the State did the business there would be no acquisition expenses, no profit, and there is an expectation that the management expenses would be of moderate dimensions.

STATE MONOPOLY EXPENSES.

I have tried to obtain figures which would show the cost where there is a State monopoly, but the result has not been satisfactory, inasmuch as I have been unable to discover any analysis of expenses, and I am led to conclude that a great deal of expense that would have to be charged as such in an insurance company's accounts is provided out of the general State charges, and never figures in the administration cost at all. This is certainly the case in Germany and Austria. In Germany, in particular, the confusion caused by the mingling

of the sickness insurance society with the accident insurance society makes it extremely difficult for an outsider to say with any definiteness what their true cost of administration is. The figures which the Germans do publish under the head of expenses of management, including loss expenses, work out at about 11 per cent. of the premium received, and in Austria it is much about the same. That is from the figures of 1912 for Germany and 1911 for Austria, and no doubt this must be increased by some figures; but in percentage it would not be great, because it must not be overlooked that this percentage is on a premium of nearly as many hundreds of millions as there are millions covered by the English companies, seeing that it covers the whole industries of Germany which are within the insurance laws, whereas the English companies only insure a small fraction of all the insurable risks in the United Kingdom.

Nearly all of the States in the United States of America which have adopted State Insurance frankly allocate out of the general funds of the State the administration expenses of the Insurance Department, thus taxing the general public for the benefit of an insurance which if insurance companies did it would in no way fall upon them, and yet from the methods adopted there for regulating the companies, to which I will refer presently, the companies are able to hold their own against the State and to secure the greater share of insurance.

In the various States of the United States this phase of the question has been drastically dealt with by the various Insurance Commissioners and I believe that having done this they have it in mind to deal with the fire insurance branch also. But that is another story. They led up to the present regulations in a curious way. They started with the pronouncement that it was not for the good of the State that any insurance company should conduct its business at a loss and that it was their duty to see that this did not occur, and, owing to the wild rate cutting that had gone on under employers liability laws, they intended to see that insurance companies doing workmen's compensation business charged a sound rate; but while they intended to see to this, they would not have employers saddled with undue expense on the business. They, therefore, have fixed a maximum charge for expenses for all companies which do this business, and as they examine periodically every company's books there is no way in which this can be evaded.

ACQUISITION EXPENSES.

They have decided that acquisition expense on workmen's compensation and employers' liability business is not to exceed 17½ per cent. of the premium, and they define acquisition expenses to include the following:—

- (a) Commission to brokers and local agents.
- (b) Commission to general agents.
- (c) Salaries of resident or branch office managers.
- (d) Contingent commissions to branch office managers.
- (e) Payments to agents under profit sharing contracts.
- (f) Salaries and commissions to special agents.
- (g) Clerical and supervising cost of policies written in agencies.
- (h) Cost of collection of premiums in agencies.
- (i) Rent of agency or branch office.