

The Beveridge Report and Life Insurance – a Canadian Point of View

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III. — The Beveridge Report and Life Insurance - a Canadian Point of View.

by

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It is a common saying that War releases great forces which change the history of the world. I prefer to believe that World-Wars are themselves the result of great forces which get beyond the control of man's puny efforts; that such blood-letting sets back the real progress of humanity.

The New Era

I am sceptical of the new eras which are heralded during wartime. Most of us remember the cries in the last War — "The War to end wars" — "Homes fit for heroes" and so on. The memory of how far short of the promise was the performance may have deterred our politicians from similar cries these days — "pap for the people". We are more sensible these days — perhaps two wars and a shattering financial depression has made us so. Do you remember the new era, the dawn of which was proclaimed in 1928 and 1929? How we thought that wealth was made by people sitting in stock-

¹ It must be clearly understood that the writer, alone, is responsible for the views expressed.

brokers' board-rooms watching industrious office boys chalking up the ever-rising prices of stocks?

Many of us have been disheartened in the last few years by the lack of purpose and vision shown in the British, Canadian and American press. We knew we were utterly opposed to the New Order as evidenced by the German Nazis and the Italian Fascists but it seemed that we lacked purpose in defining how our ideas differed from theirs. Even the Atlantic Charter did little to dispel the fog. Now comes the Beveridge Report and the way it has caught public interest in Canada shows that many of us have been trying to visualize the world after the War with little success and are prepared to welcome any blue-print offered by a competent authority.

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The Beveridge Report

A group of senior British civil servants whose duties concern the administration of the various Social Security services operating in Great Britain, met under the chairmanship of Sir William Beveridge to recommend ways and means of co-ordinating the various services and extending them to fill certain obvious gaps. The result is a statement some 300 pages long which is being bought by many in Canada but which I vouch will be read through by few. To be frank, in spite of its great importance, it is dull reading except to the initiated.

It must be emphasized to Canadian readers that these British social services discussed in the Report have a history of over thirty years' development in Great Britain and even twenty years ago, Sir Arthur Newsholme, M.D., that great public health administrator, emphasized the lack of co-ordination among the Social Security services in Great Britain. One would say that reform was overdue.

A British Revolution

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I am a great believer in the principle of continuity in human affairs. In any new world we may plan, our existing edifices should be remodelled, if necessary, but should be used to their fullest extent and not scrapped without just cause. The future must be related to the past. Sir William referred to his Report as "in some ways a revolution", and stated, "a revolutionary moment in the world's history is a time for revolutions, not for patching".

I regret that the word revolution was used at all. Revolutions always destroy, they rarely, if ever, create anything. The French Revolution ended an era — it did not introduce one. It destroyed a stable government and, as we now know, France has, historically speaking, never enjoyed a stable government since. The present autocratical government in Russia stems directly from Czarist days when the people expected the central government to do all the planning, even where business was concerned, and this has never been the case in the English-speaking world.

In Great Britain, in times when great forces of civil commotion were being generated, the "haves" appear always to have given way to the "have-nots" at the critical moment and before the situation got out of hand. In the recurring crises which occurred in Great Britain over a century ago following another World-War, the Duke of Wellington was the leader in this political game of "one step forward, two steps backward" and in my opinion the Duke's political services were no less invaluable to his country than his military achievements. This compromise between the "haves" and the "have-nots" is what Sir William Beveridge means by a "British revolution". The main recommendations of the Report are not revolutionary and even before the debate in Parliament they seemed to have been accepted by the people at large.

Life Insurance and Social Security

Social Security is the creed which insurance companies have been spreading throughout the world in their long history. Never let it be forgotten that the life insurance salesman has been the itinerant preacher who, often to deaf ears, has preached the principles of Social Security and Social Insurance as opposed to vague, cold charity !

It is generally accepted now and not as a mere empty phrase that the well-being of the industrial and the farming classes is a first essential to the prosperity of our country. This is a complete change from the classical economic doctrine of the Wage Fund, that is, if the industrial classes get a penny more the others get several pence less — there are so many of the “unfortunate class”, so to speak. This change in outlook is of great importance to the life insurance business. The growth of life insurance in the English-speaking world to the astronomical figures in force is mainly the result of an increasing standard of living by the great majority of the population, i.e., wage-earners and smaller-salaried people. In Canada, the total life insurance in force now exceeds eight billions of dollars while in the United States it exceeds one hundred and thirty billions of dollars. 151

The desire and ability of millions of the common people to make some provision voluntarily for the future is one of the great economic forces which has been coming into play in the last 40 years. It is the millions with 20 to 50 dollars a year to save in life insurance and not the handful of millionaires which has made possible the huge sums represented by life insurance in modern times.

That people desire to save is as much a factor as their ability to do so. It is a demonstration that man is a “thinking animal”, his only advantage over the brute world, when he

is prepared to forego certain immediate pleasures (should we say of the flesh?) for the mental satisfaction of making provision for the uncertain future of himself and his dependents. Governments should be careful how they interfere with this desire of man to save his own soul his own way and not by government decree.

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The attitude towards social problems in the Beveridge Report seems to indicate the determination to create a letter for standard of living among the working classes and the smaller-salaried people. Should such a development take place in Canada, it will introduce an era of great expansion in the life insurance business. The guaranteed minimum benefits of the Government Scheme will be the foundation on which the Canadian life insurance companies can create an even greater instrument for the welfare of the public in Canada. To those who might consider that my remarks might apply to industrial insurance only, I would point out that over half of the policies issued in Canada by the Ordinary Life Insurance Companies are for \$1,000 or less.

As the Report states, its object is the removal of "want". A better term is "destitution". Over and above the minimum benefits of the plan, everybody will be expected to provide additional amounts on a voluntary basis in accordance with his or her means and needs. The minimum benefits will appear very small to Canadians but the object of the plan is quite clear.

Beveridge and Life Insurance

Sir William Beveridge's recommendations in his Report, namely, the co-ordination and extension of British State Health and Social Security plans, demands the greatest respect. However, bracketed in his scheme, recommended by him, but stated to be not an essential part of the plan, is a

recommendation to nationalize industrial life insurance. The importance of this from the Canadian point of view is that if the criticisms (Appendix D), covering 28 pages of closely-printed matter, be read out of their context, they might apply to any life insurance companies which were organized to canvass actively for life insurance business whether Ordinary or Industrial and particularly to the business in Canada.

“Oh wad some power the giftie gie us,
To see oursel’s as others see us !”

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A review of the points made by Sir William Beveridge is of the greatest value as anticipating the criticisms which would be made of life insurance in Canada by a Canadian Beveridge Committee. As in Great Britain such a committee would undoubtedly consist of a college-economist and several prominent civil servants, not one of whom would have any practical knowledge or experience of the business. I give the points of criticism in the British Beveridge Report in italics with my own comments following :

- (1) *Capital is not essential when a life insurance company has become firmly established.*

Mutualization has been the natural development to this criterion in the United States but, as stated in the next criticism, this would not prove satisfactory in Great Britain. The Report mentions the small amounts of capital which were used to float the big companies originally and the enormous returns the original investment would show at the present time. This would be the case in almost any very successful enterprise which has had a century of trading behind it. In Canada, we do not consider that “all are suspect who are successfull”.

- (2) *The control of the British mutual industrial insurance companies has got into the hands of the agents of these companies.*

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Apparently many necessary reforms which have been carried out by the companies with shareholders have not been carried out by the mutual companies. It is interesting from this comment in the Report to note that shareholders have some value although their capital may not be necessary. The difficulty is that the agents of these mutual companies by their contracts, acquire a "vested" interest in the business they collect which they sell on retirement for substantial sums. There has been much talk in Canada of giving agents a "vested" interest in their business. But we see what happens when it is assumed that procuration fees and renewal commission have a value exceeding the service rendered by the agent. It just saddles the business with additional expense and results in developments which bring severe criticism on the business.

- (3) *Terminations are too high.*

This is a criticism often levelled against life insurance in Canada. Beveridge does what our own Blue Books of Insurance do, too. He compares the terminations not with the "business in force" from which they arise but with the amount of "new business". It is the old story, "If you divide bacon by eggs, you get algebra". This unfair mode of comparison would show up in its most ridiculous aspect if the companies attempted to introduce conditions which would be considered as "ideal" by these critics but which would, of course, mean the destruction of the business. Let us assume that the companies refuse to sell a policy unless the applicant procured a bond guaranteeing that the policy would be carried out to its natural end whether that were 50 or 100 years

afterwards. In such circumstances, the new business written would become negligible and to name a figure, let us say it fell to one tenth of one percent of the business in force. The agency force would then apparently devote its entire energies to bullying people to keep their existing insurance in force. However, there would still be the policyholder for whom conditions have changed so that he does not require the insurance he may have taken out many years ago; there is the party who, having carried a policy for 10 or 15 years wishes to withdraw its surrender value, the policy having served its original purpose; there is the girl getting married who does not want to saddle the budget with both her own and her husband's insurance, and so on. Whatever efforts be made some business will terminate and let us assume that it did not exceed one percent of the business in force which would be "ideal" enough. Hence using the mode of computation of these critics in these "ideal" conditions, "terminations" would be 1000% of the "new business".

The restrictions on lapsation, as far as remuneration to agents goes, are probably stricter among the leading British industrial companies than any life insurance companies in the world. New business payment on "increase" only is pretty rough treatment for agents. The largest British industrial insurance company in its annual report gives the average duration of its Whole Life premium-paying policies in its industrial branch as exceeding 19 years. Can any other company in the world equal this, industrial or ordinary?

(4) *Lower cost means less expansion.*

Sir William Beveridge is disturbed, according to his Report, that the three largest industrial insurance companies which have made such drastic reductions in their expenses and have made very generous concessions to policyholders are

writing less business and are expanding less rapidly than the companies which have ignored past criticism and made no efforts to reduce expenses. This is a factor which applies just as much to ordinary life insurance or any other business, the products of which have to be sold to the public. It is not the better article which has the biggest sale but the article, to sell which, the greatest effort is being made; there is nothing new in this.

In their substantial reduction of overhead and having in view the nature of their business and the minute sums dealt with, the British industrial life insurance companies have made what will always be regarded as a landmark in life insurance history. One may imagine that it was not accomplished solely by changes in procedure, meaning greater efficiency, but sacrifices by the office and field staff were made also. Their critics, however, as evidenced by Sir William Beveridge's Report, are not mollified. There is an Arab fable of a farmer and his little son who were accompanying their heavily-laden ass to market. A passerby scolded the parent for allowing the little boy to trudge in the dusty heat and so he was put on the ass. The next passerby scolded the little fellow for taking things in comfort while his old dad trudged by the wayside. Even when both rode on the back of the poor ass someone was found to put in a word for the ass. So eventually they got to market carrying the ass and its burden between them. The moral is: — You cannot please everybody — so why try ?

Public Relations

The life insurance business in Canada may pride itself on the fact that it has always had a "good press". It is just the reverse with British life insurance, and in particular, with the industrial offices. Our advantage in Canada is due to our

realization that we have to make known to the public that our funds are their accumulations and that we are mere officials carrying out as equitably as we can our duties as guardians of their trust.

Indifference to life insurance is a national characteristic in Great Britain. Many individuals in Britain, of whom I know and in comfortable circumstances, carry little or no life insurance at all whilst their counterpart in Canada, to my knowledge, put into life insurance 10% to 15% of their income. The bogey of costs which dominates the life insurance business over there and a government subsidy (as an allowance against income tax) make life insurance relatively cheaper in cost in Britain than in Canada yet it is comparatively unpopular over there.

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In such an atmosphere is it any wonder that public men who carry little or no insurance themselves would consider the industrial insurance agent only as a pest where the industrial classes are concerned? Yet we must pay tribute to Sir William's acknowledgment of the services of the industrial insurance agent in Great Britain for he says, "The collectors now visiting at short intervals most of the homes in Britain have become in thousands of cases the friends and advisers of the families with whom they deal. Many of them are in effect travelling Citizens Advice Bureaux; they regard themselves as servants of the public". We in Canada would like to think our agents would earn such a tribute and the organizations that have developed this system and trained these agents cannot be such unsocial forces as the Report would have us believe.

It is true these thousands of industrial agents play an important part in servicing the National Health Insurance Scheme which was introduced in 1911 and which, according

to Lloyd George, could not have functioned without their help. They are thus part of the "social security system" which Beveridge is trying to re-organize. But to take over the Industrial Insurance Companies and operate them as a Public Utility is quite another matter. As I interpret the Report, Life Insurance will become a very minor form of thrift among the industrial classes in Great Britain if Sir William Beveridge has his way. This would also follow from the fact that any equally effective system for selling life insurance to the industrial classes would cost more under Government auspices.

Sabotage of British Life Insurance

As the Report mentions, the industrial life insurance companies issue about one-third of the total ordinary life insurance in Great Britain. More importantly, they possess practically the only whole-time agency system for life insurance in Great Britain. This is apart, of course, from the Canadian companies who operate in Great Britain along similar lines to their business in Canada. In Great Britain the majority of life insurance sold by the Ordinary Companies is obtained through insurance brokers, whose main interest is fire and casualty business, and through "spotters" — as we would call them — bank managers, lawyers, real estate agents and others similarly placed who would be aware of possible openings for business.

Thus if the Government take over the outside staffs of the Industrial Insurance Company in Great Britain, it would destroy the only whole-time life agency force existing among the British Offices and operating on an aggressive basis. This would be tantamount to handing the British life insurance market over to the Canadian companies.

Those with a practical knowledge of life insurance (and acquainted with the development of the business in Great Britain) after reading Sir William Beveridge's criticisms of industrial life insurance would draw entirely different conclusions as to the remedial measures which should be taken. I cannot but feel, reading the Report, that Sir William himself is not convinced on his own recommendation of nationalization but, like a capable "counsel" is whipping up every argument, however petty, to sustain a "losing brief".

