

1909.
NEW ZEALAND.

MUTUAL ACCIDENT INSURANCE BILL

(REPORT OF SELECT COMMITTEE ON THE); TOGETHER WITH MINUTES OF EVIDENCE.

(MR. ALLEN, CHAIRMAN.)

Report brought up 7th December and ordered to be printed.

ORDERS OF REFERENCE.

Extracts from the Journals of the House of Representatives.

THURSDAY, THE 4TH DAY OF NOVEMBER, 1909.

Ordered, "That a Committee be set up to consider the Mutual Accident Insurance Bill: the Committee to have power to call for persons and papers: the Committee to consist of Mr. Allen, Hon. Mr. Buddo, Mr. Buxton, Mr. Laurenson, Mr. Malcolm, Mr. Okey, Mr. Rhodes, Mr. Sidey, Mr. Witty, and the mover."—(MR. DIVE.)

WEDNESDAY, THE 3RD DAY OF NOVEMBER, 1909.

Ordered, "That the Mutual Accident Insurance Bill be referred to a Select Committee."—(MR. REED.)

REPORT.

THE Committee to whom was referred the Mutual Accident Insurance Bill have the honour to report that they have carefully considered the same, and recommend that it be allowed to proceed without amendment.

Copy of the evidence taken in connection with Bill is attached hereto.

7th December, 1909.

J. ALLEN,
Chairman.

MINUTES OF EVIDENCE.

TUESDAY, 23RD NOVEMBER, 1909.

T. F. MARTIN examined.

1. *The Chairman.*] Your name?—Thomas Frederic Martin, barrister and solicitor.

2. Did you draft this Bill?—Yes, on the instructions of the Taranaki Farmers' Mutual Fire Insurance Association.

3. Perhaps you would shortly explain what the meaning of the Bill is?—The object of this Bill is to extend the principle of insurance as effected by mutual fire insurance associations to insurance against accidents. No doubt the Committee would wish to see that all proper safeguards are provided in any Bill giving power to any company or persons to effect accident insurance, and I propose briefly to explain those features of the Bill. In the first place, sir, there is an Act on the statute-book enabling accident insurance companies to carry on their business. That Act is "The Accident Insurance Companies Act, 1908." It will be seen by reference to the Bill, clause 15, that the provisions of this Accident Insurance Companies Act are incorporated in the present Bill. Therefore, whatever the Legislature has thought necessary to provide with respect to accident insurance companies in general is provided with regard to the Mutual Accident Insurance Bill now before the Committee. The Committee might wish to know what kind of companies or persons are allowed to effect accident insurance under the Act of 1908. I will read the definition of "company" in section 2 of that Act: "'Company' means any person or association, whether incorporated or otherwise, not being established under any Act relating to friendly societies, who issues or is liable under accident-insurance policies in New Zealand, and includes companies now established in or out of New Zealand, and includes also *mutual associations* as well as *proprietary*." The Committee will therefore see that this Act contemplates accident insurance by mutual associations, and the present Bill is, of course, to enable a mutual association to engage in accident insurance. Another safeguard which is provided—really by the Accident Insurance Companies Act itself—is that every company has to prepare annual statements, which are to be printed and deposited with the Minister, and further information is to be given if required, and these statements are to be laid before Parliament. There are penalties in default of this being done, and penalties for signing false statements. By the effect of clause 15 in the Bill provisions for similarly safeguarding the members and the public are incorporated in the present Bill, so that the Bill gives all the protection that the Legislature has already given in the case of accident insurance companies and of persons dealing with them. Clause 17 of the Bill reads as follows: "(1.) The Governor may make regulations prescribing the form and manner in which the association shall prepare, authenticate, and deposit annual statements of the condition of the property and affairs of the association, and of the fire and accident insurance business transacted by it. (2.) Such regulations shall have the same effect as if they were contained in this Act." The object of this clause is this: The Mutual Fire Insurance Act of 1908 also has a number of provisions—they are contained in sections 56, 57, and 58—requiring these annual returns to be made, and it was thought that the provisions might require harmonizing to meet the case of an association which not only engaged in fire-insurance business, but also in accident-insurance business. These provisions may not require harmonizing—they may work out all right; but, in case they do, the Governor has power to make regulations. Another safeguard in the Bill is that the present mutual fire insurance association cannot engage in accident insurance on the mere *ipse dixit* of the directors. Clause 3 of the Bill provides that a resolution must be passed at a special meeting of the members of the Fire Insurance Association convened as required by the Mutual Fire Insurance Act of 1908. Assuming that such a resolution has been passed, I will endeavour to point out how the Bill, if it became an Act, would operate. The persons who effect insurance against accident must be members of the Mutual Fire Insurance Association: that is clear in clause 2, which reads, "Any mutual fire insurance association incorporated under 'The Mutual Fire Insurance Act, 1908,' may undertake the insurance of its *members* with respect to all or any of the following classes of insurance," &c. If members will compare the classes of risks set out in clause 2 of the Bill with the definition of "accident insurance" given in the Accident Insurance Companies Act of 1908, it will be found that the risks are exactly the same, with some consequential amendments. Then, a member effecting an accident insurance with the association does so as an ordinary insurer. He simply pays his premium—he does not give premium notes. It follows therefore logically from this that he should not have a vote at the meetings of the association. The members of the association who are insured against fire have to give premium notes. Now, a premium note is a document which extends over three years, by which the member undertakes to make certain payments. Part of these payments is for a premium, which he pays as of course, but the other payments are to make up losses, and are made only in case he should be called upon. That is the principle of fire insurance on the premium-note system. So it will be seen that, as the fire-insurance members, by reason of their premium notes, are the persons who are liable to make up any losses, these persons, and these alone, should have votes at the meetings of the association. But an exception is made in this respect with regard to meetings to make by-laws affecting accident-insurance business. It is provided in clause 9 of the Bill that the amount in which a member is insured against accident shall be taken into account for voting purposes at this meeting. That is only fair—that they should have a voice in the making of by-laws fixing

the rates of premium on accident insurance or dealing with their own interests. These are the leading features of the Bill; but, putting the principle of the Bill in a few words, it really amounts to this: that the mutual fire insurance associations desire to extend their business so as to include insurance against accident. In drawing the Bill I have endeavoured to make all proper safeguards, and I can only say that if the Bill does not contain a necessary safeguard it can only be because the Accident Insurance Act, which is already on the statute-book, does not contain it, since we have adopted in their entirety the provisions of that Act. At the same time I have not noticed any want of safeguard or any danger. That is the statement I wish to make, but I shall be happy to answer any questions that I can on any points.

4. *The Chairman.*] Under the Accident Insurance Act we have, if an accident insurance company were established in New Zealand apart from any fire insurance company, would they have to make any deposit?—I do not see that provided for.

5. Is there any provision for the Crown to regulate their tariff by law?—I do not see anything.

6. The proposal in this Bill is not to start a separate accident insurance company, but to tack the business on to a mutual fire insurance association?—Yes.

7. What provision is there in mutual fire insurance for protection similar to that under the companies law with regard to capital?—A fire insurance association cannot commence until it has got insurance from a number of persons amounting to £40,000. That is in clause 22 of the Act.

8. That is, the Mutual Fire Insurance Association Act?—Yes.

9. What protection is there in regard to capital, such as in the companies law, supposing a local company were starting?—There are provisions with regard to companies other than mutual associations.

10. In the Companies Act is there any special provision now for fire insurance companies starting to have a certain amount of capital?—Section 327 refers to a capital of £50,000.

11. A local fire insurance company starting must have a capital of £50,000 intact?—Yes, other than a mutual association. This law affects a joint-stock company. But then they do business with all the world, while a mutual association only deals with its own members—it is just a family party.

12. Supposing the Bill is passed and is tacked on to the mutual fire insurance scheme, what security is there that their claims will be paid to those insuring?—There will be no absolute security. The claims would be in the same position as claims for fire. The Mutual Fire Insurance Act deals with that. There are several sections in the Fire Insurance Act which provide for liability in the case of losses—for instance, clauses 37, 48, and others.

13. What I want to get at is this: there is no intact paid-up capital set aside?—No, the association itself is liable, and the association looks to the amount on the premium notes. A person insuring against fire gives a note for three years. Part of that is for the ordinary premium, and he is liable to have the rest called up. They have power under section 52 of the Mutual Fire Insurance Act to form a reserve fund: "The association shall form a reserve fund, to consist of moneys remaining on hand at the end of each year after payment of the ordinary expenses and losses of the association; and for that purpose the Board may levy an annual assessment, not exceeding 25 per centum on the premium notes or undertakings held by the association, and such annual assessment may be made in advance; and such reserve fund may from time to time be applied by the directors to pay off such liabilities of the association as may not be provided for out of the ordinary receipts for the same or any succeeding year."

14. *Mr. Witty.*] That is permissive?—Yes. In clause 14 of the present Bill it is provided, "The reserve fund authorised to be formed by 'The Mutual Fire Insurance Act, 1908,' may be applied to pay off liabilities under this Act not met by ordinary receipts, as well as the other liabilities of the association for payment of which such reserve-fund money may lawfully be applied."

15. *The Chairman.*] If we pass this Bill there will be no security of intact, paid-up capital—the security will be whatever is available out of the premium notes?—Yes. So far the Fire Insurance Bill is based on these or shares. The words as to shares are put in contingently on the other Bill passing. That is the principle which governs all mutual associations. They are on a different footing to joint-stock companies, which deal with the world at large.

16. Just make clear the difference between the two—between the mutual association and the one that deals with the world?—The mutual association consists of a number of members who gain certain benefits and are liable for certain payments. It is a family party. If there are profits they would no doubt go in the direction of reducing the premiums. The mutual life associations act on the same principle.

17. The members know that they run a certain amount of risk?—Yes. In the case of the New York Life Association there was great trouble because a great number of shares were taken up and the shareholders claimed all the profits, and after a while it was decided that the association should be strictly mutualised.

18. Supposing in the proposed Mutual Fire Insurance Bill we extend the means of providing capital from premium notes to include share capital, will that alter the principle of the mutual part of it?—No, it will strengthen it.

19. They will still keep the premium notes going?—They have the option of keeping the notes going or of issuing shares.

20. If they issue shares, will the liability be limited or unlimited?—It is virtually unlimited under the Bill. There is a minimum liability in the Bill—there is no maximum liability. The maximum liability is to be fixed by the regulations of the association.

21. Do you mean that the society would have power to limit the maximum by regulation?—Yes.

22. They would make it a limited liability company?—Yes.

23. If it were a limited liability company under the Bill, what would be the position with regard to intact capital?—The company would not be incorporated under the Companies Act.

24. Would it always have £50,000 available?—We are dealing with associations which are already established by law and which are not required to have this intact capital, but which issue premium notes only, under which the liability is strictly limited because the amount is mentioned in the premium note, and we desire to strengthen the position of the association by issuing shares instead of or together with premium notes. Now, the benefit of issuing shares is this: that when a man gives a premium note for three years, his liability under that premium note decreases in each of the three years, and at the end of the three years he has to take out another premium note.

25. In that case there would be more security in having shares instead of premium notes, because of the continuity?—Yes. My answer is that the joint-stock companies are required to have this amount of capital intact, but Parliament in its wisdom has not extended that provision to mutual associations; and, further, by the issuing of these shares we are really strengthening the position of the mutual fire associations and therefore necessarily giving greater security to those members who take out accident policies.

26. Will this Bill, if passed, be confined to its own shareholders, and not extend to others?—Yes. It is just as if half a dozen persons agreed to insure each other's properties—it is like a family party.

27. Will you explain clause 11?—"In making assessments on premium notes or undertakings (or shares) issued in respect of fire insurances, charges may be made by the association in respect of losses or contemplated losses in connection with insurances effected under this Act." This clause shows that the fire-insurance members, whether they are insured on the premium-note principle or share principle, are liable to make good the insurance on accidents if there are losses. As I explained before, the member taking out an accident insurance only pays his premium. He pays nothing towards the liabilities of the association. He looks to the funds provided.

28. Who has the fixing of the tariff or premiums?—That is provided for by the board of directors (see clause 5).

29. Are they the fire-insurance members or both?—They are the same board of directors of the association.

30. Who fixes the tariff?—The directors of the association.

31. Of what association—there are two, are there not?—There is only one association.

32. Who has the voting-power?—The voting-power is given to the fire-insurance men.

33. Really the fire-insurance men, then, fix the tariff for accidents?—That seems to be correct. The only qualification appears to be that members insured also against accident have a voice in the passing of by-laws and regulations affecting accident insurance.

34. Under the by-laws and regulations is the tariff fixed?—That is not mentioned.

35. Ought it not to be made clear by whom the tariff is fixed?—Yes. The board of directors fixes the tariff. It would be virtually the fire association.

36. *Mr. Witty.*] With regard to subsection (a) of section 2, is that necessary? For instance, "insurance against accident resulting in loss of life or in bodily injury." It is enough there, but it goes on, "or against disease, disability, or any change of physical or mental condition." You are opening a very wide door there if that should be allowed to pass. Is it necessary to have that at all? If you have subsection (b), that should be quite sufficient. You are defining it there quite clearly?—The only reason these words were inserted was because they are in the Accident Insurance Act. We have followed the words given under that Act.

37. Mutual accident insurance is different to ordinary accident insurance. Under the latter I have to specify whether the person injured belongs to my family. This is opening the door probably to persons who are prone to disease or mental derangement?—I understand it only applies to the person insured himself.

38. With regard to section 3, it says, "A mutual fire insurance association shall not undertake any of the said classes of insurance unless and until a resolution authorising the association so to do shall have been passed at a special meeting of the members." Is that a bare majority of those present?—They vote according to the amounts in which they are insured. In section 10 of "The Mutual Fire Insurance Act, 1908," it is provided that "Each member of the association shall be entitled, at all meetings of the association at which he is present, to the number of votes proportioned to the amount by him insured, according to the following scale, that is to say: for any sum under £250, one vote; from £250 to £500, two votes; from £500 to £1,000, three votes; and one vote for every additional thousand pounds; but no member shall be entitled to vote while in arrears for any assessment due by him to the association." We simply adopted the existing law in that respect.

39. In regard to section 11, in reply to the Chairman, I understood you to say that a person insuring was only liable to the amount of his insurance fee?—That is the accident premium.

40. There is no further liability?—No.

41. Supposing the fees do not cover the liability?—Then recourse is had to the premium notes or shares taken out by the fire-insurance members.

42. Then, they are going outside the premium notes if they allow a person to insure who is only responsible for his ordinary fees?—They only insure their own members. The insurer must be insured against fire as well.

43. *Mr. Sidney.*] I understand that this association is only one that can be formed in connection with a mutual fire insurance association?—That is so—with an association that wishes to extend its operations amongst its own members with a view to insuring them against accident.

44. And it is absolutely limited to those who are already members of a mutual fire insurance association?—Yes. Clause 2 says that any mutual fire insurance association may undertake the insurance of its *members* against accident.

45. Every member must be liable for loss both by accident and fire?—Yes, but only the fire-insurance members are liable. The man who is insured against accident also must necessarily be insured against fire, but it is only in respect to fire insurance that he is responsible for accident, because the member taking up fire insurance has to give a premium note or to take shares, and under those alone do the funds come by which to meet losses. If I am a member, and insure myself against fire under the premium-note principle, I give a premium note which covers the premium for my insurance, but something more. Then I take out a policy for accident, and pay a premium and nothing more. That is how I was instructed to draw the Bill, and those who instructed me did not wish to provide for issuing anything like premium notes for accident insurance.

46. With regard to premium notes, is it in proportion to the amount of their insurance?—There is a tariff or rate fixed, and they give a premium note for three years. They are then called upon rateably to pay the difference between the actual premium and the full amount of the premium note.

47. Suppose one man insures for £100 and another for £1,000?—They told me once how they did it and gave me some figures, but I forget them. My idea is that it increases so-much for the premium and the rest under the premium note.

48. So that, the more a man insures for, the greater is the liability?—Yes.

49. Supposing a man insures for £1,000 against fire, and another for £100 against fire: the man who insures for £1,000 has a much greater liability?—Yes.

50. Supposing a man insures for £1,000 against fire and £50 against accident, while another man insures against accident for £1,000 and £100 against fire, the liability would fall almost wholly on the man who is insured for £1,000 against fire?—Yes, but the other man would be paying more for his premium against accident. No doubt the tariff will be fixed with a view to avoid all losses in regard to accidents.

51. Is the fire-insurance premium not fixed in a similar way? In connection with the accident premiums they would be fixed at such a figure as would practically not contemplate any loss at all?—Yes.

52. The fire-insurance premium is fixed at a figure that would contemplate loss?—No, they do not contemplate loss. They take the premium note in case they could not meet all the claims.

53. *Mr. Dive.*] They would anticipate a certain amount of loss in both, and the premium notes would provide for that?—Yes, against possible losses.

54. *Mr. Sidey.*] Does it not appear to you to be somewhat inequitable if a case should arise similar to that I have put to you, that, simply because a man is insured to a large extent against fire, he undertakes a large liability for accident as against the man who insures for a large amount against accident and very little against fire?—As regards the individual case, it might sound inequitable, but dealing with a large number of cases you would find probably that the man heavily insured against fire would also be heavily insured against accident, and it would work out equitably on the whole. I think the average would probably find itself amongst the members.

55. You think, on the average the principle might be a fair one if you threw the whole burden for accidents on fire insurers, in the proportion that might be insured for fire and not for accident?—I think so, on the whole.

56. It is clear, of course, that all the assets of the association are liable?—There is no liability on members except to the extent of their premium notes or shares.

57. There is no liability over that?—To meet the case put—I am not asking for it as an amendment in the Bill, because naturally I do not want it amended, as it is my own Bill—if it is thought inequitable it could be provided that there should be some proportion between the amounts insured against fire and accident.

58. It is possible to reverse the positions?—Yes, and it would then work out equitably.

59. *The Chairman.*] In the case of accidents, and claims for accidents on the accident insurance companies, may not those claims arise some time after the accident has occurred under the existing law—a year or more—as sickness arising out of the accident?—Yes. Is that under the Workers' Compensation Act?

60. Yes?—That refers mostly to mining.

61. Even under the ordinary Workers' Compensation Act may not a claim arise some time after the accident has happened?—Yes.

62. What would have happened if the premium under it worked out in that time—what security would there be?—The premium notes would not all work out at the same time. A man takes up a premium note for three years, and there is always a body of premium notes in existence.

63. But the particular man whose premium note has worked out may be liable on account of accidents under the Workers' Compensation Act, may he not?—Yes, that would be so; but conversely he might take out his premium note and the first claim on it might be for accident that had occurred before he took it out. It would equalise itself.

64. *Mr. Sidey.*] Is this Bill being promoted at the instance of any particular individuals?—The Taranaki Farmers' Association told me they were co-operating, I understood.

65. Was it on their instructions you drew the Bill?—I drew the Bill on the instructions of Mr. Syme, as their solicitor. They have to pass a resolution at a special meeting before they can adopt it, and then have to file the resolution with the Registrar of Companies.

66. *Mr. Witty.*] With regard to clause 7, as to reinsurance, I would like to ask whether other companies will take the association's risks?—This clause is copied from the Mutual Fire Insurance Act, section 27; whether it is acted upon I do not know.

67. *Mr. Sidey.*] With regard to clause 13, about the powers for raising money, I suppose they are fully provided for in the Mutual Fire Insurance Act?—Section 30 provides for power to borrow up to one-half of the premium notes, and provides also that the money shall only be expended in ascertained fire losses, and therefore as a corollary this follows.

68. There is no additional borrowing-power necessary?—No, it simply deals with the money when borrowed. It may be applied to payment of ascertained losses on accident and fire insurance.

69. Was the point ever raised as to the proportion of liability between those insured against fire and those insured against accident?—No.

70. You say it would work out equitably on the whole?—Yes, as Mr. Malcolm said; and, as they are virtually all farmers, the man having a large number of men insured would also be likely to have a large number of buildings. It would work out both ways. I would like to mention that, to meet the case of the Fire Insurance Bill passing before this Bill, the words in brackets “or the share principle” at the end of clause 4 refer only to the Fire Insurance Bill.

71. *The Chairman.*] You think they ought to be cut out?—If this Bill forms part of the other Bill it would be all right, but if the other Bill does not pass they would be better to come out, and the same applies to clause 11 and clause 12, where the words in brackets “or shares” occur.

Approximate Cost of Paper.—Preparation, not given; printing (1,500 copies), £4 10s. 6d.

By Authority : JOHN MACKAY, Government Printer, Wellington.—1909.

Price 6d.]