

## CHAPTER VIII.

**THE APPROVED SOCIETY SYSTEM.**

196. We now turn to consider one of the most important features of the Scheme of National Health Insurance—the Approved Society system. Whether we regard the membership of the Societies, or their number and variety, or the historical position which many of them occupy in the field of provident effort, or the immense sums of money with the administration of which they are entrusted, we are impressed with the magnitude of the system and the complexity of the many issues which it presents for our consideration. We think it will be convenient to discuss these problems as a self-contained group, remembering that we deliberately excluded them from our review in Chapters V and VII. Accordingly in this Chapter we describe the system, give the effect of the more important evidence we have received in regard to it and make certain recommendations for improving the administrative working of the system, which, in its main features, should, we think, be continued.

## AUTONOMY OF SOCIETIES.

197. In one respect the National Insurance Act of 1911 represented a bold experiment in the field of social legislation, inasmuch as it sought to devolve a large part of the administration of a measure enacted by Parliament upon those in whose interests the Act had been passed. Even a cursory perusal of the Act would demonstrate that in intention at least the Health Insurance Scheme was planned so that it might be administered, not by the executive departments of the Central Government or by Local Authorities subject to the electorate at large, but as far as might be by self-governing bodies created by and answerable to the insured persons themselves. The Act was thus an experiment in democracy, no less than in the domain of social betterment, and a review of the working of the Act would be incomplete if it failed to recognise this two-fold character of the Scheme. The bodies by which the Act, so far as concerns the administration of cash benefits, is administered, are known as Approved Societies. They are organisations of various origin and differ widely from one another in constitution and methods of operation. They are, however, subject in common to two main statutory conditions, namely—

- (1) That the Society shall not be conducted for profit, and
- (2) That its constitution shall provide for its affairs being subject to the absolute control of its members.

198. The Act provides that each Approved Society shall have control of its own funds derived from the contributions of its

members and their employers, and that any surplus disclosed on the periodical valuation of its assets and liabilities shall remain at the disposal of the Society to be used only in the provision of additional benefits for its own members, as those members shall determine. The institution of the Approved Society system was doubtless due to the fact that long before the provision of monetary aid for the worker in times of sickness and disablement, or of the necessary medical treatment for his restoration to health was accepted as a subject of public responsibility, the want had been met to a large extent by the provident efforts of the people themselves. These effects were expressed in the institution of the Friendly Societies which existed in almost every part of the country and of the benefit side of the Trade Union movement which was almost equally widely distributed. The majority of these bodies were firmly established and well organised, and enjoyed in their operations the protection conferred by various Acts of Parliament. So considerably had these movements appealed to the wage-earning classes that at the time when the Act was passed they were estimated to include among their members about one-third of the total population to be brought within the scope of the National Scheme. It was evidently felt that the use of these existing agencies would be of the utmost assistance, in bringing the new Scheme into operation and indeed that a Scheme which failed to build upon the foundation already laid by voluntary action of such a widespread character would have but little prospect of successful survival.

199. In a sense, therefore, it may be said that the adoption of the Approved Society system was not merely imposed on Parliament in 1911 as an essential condition of a workable scheme in the conditions of the time, but that it was justified by the necessity of retaining under a scheme imposed by the State the general features of a system of Insurance which had been evolved by the people themselves in their voluntary and unprompted efforts to meet their own requirements.

## NUMBERS, TYPES AND MEMBERSHIP OF SOCIETIES.

200. Approved Societies are of many different types, the chief being Friendly Societies (with or without branches), Trade Unions, Societies formed by Industrial Assurance Companies or Collecting Societies, and Employers' Provident Funds for persons in the service of particular employers.

201. In the first draft of the Bill of 1911 a minimum membership of 10,000 insured persons was required as a condition of the approval of a Society, but this limit was abandoned before the Bill became law, and it was left open to any body of insured persons, however small in number, to apply to become an Approved Society. As a result, the number of Societies which secured approval at the commencement of the Scheme was very

much greater than had originally been contemplated, and included many with a very small membership. In England alone over 2,200 separate Societies had been approved within six months of the commencement of the Scheme.

202. While the fullest use was attempted to be made of the bodies already in the field when the Act was passed, a short experience proved that in many cases, especially among the smaller Societies, the purpose would be defeated by a certain lack of adaptability on the part of some among those who would thus be brought into the work of administration under the national system. Though much was done to ease the situation by utilising existing methods, the new machinery was different in certain essential matters from that to which the officers of the Societies were accustomed. Contributions were not, for instance, paid in cash to the Society and applied directly to the benefit needs of the members. They were paid by employers through the medium of stamps and passed from the Post Office to the coffers of the Departments, the Societies afterwards claiming their "credits" in the departmental books on the vouchers represented by their members' contribution cards. It followed that to place the Societies in a position to pay the benefits, funds had to be issued to them at stated intervals by the Departments. This procedure, with its accounting requirements, though not in itself involving any particular difficulty, proved to be irksome to many, while the need to conform to the standard of precision and promptitude entailed by the requirements of an Act of Parliament was equally burdensome. The result was that among the smaller Societies many officials decided that the task of administering National Health Insurance was beyond their powers, and as it was impossible to replace a considerable proportion of them from among their fellows, transfer of engagements, on a considerable scale, resulted. Mainly for this reason there has, from the first, been a continuous and considerable decrease in the number of Societies remaining approved. In England alone, out of 2,208 which had been granted approval no fewer than 1,192 had ceased to administer the Act by the end of 1923. At the present time the number of Approved Societies is 886 in England, 94 in Scotland, and 40 in Wales. Of these 31 are Societies with branches, the total number of branches for the purposes of National Health Insurance being 6,887. The actual number of "units" administering the system is thus 7,876.

203. The membership of Approved Societies varies within the widest limits from less than 50 to more than 2,000,000. In England there are still at one end of the scale 70 Societies with less than 100 members, and at the other end there are 24 Societies with a membership of over 50,000 including two with over a million members in each. We were informed

that 65 per cent. of the total number of Societies in England comprise only 2 per cent. of the total number of insured persons, while 2½ per cent. of the Societies include 76 per cent. of the insured persons. (*Kinnear*, Q. 23,553.)

204. Approved Societies are not, as a rule, organised on any territorial basis, and while a certain number are restricted to persons engaged in particular occupations or group together those who share a common point of view, such as those which impose a temperance or a particular religious test, the Societies comprising the great majority of the insured persons are open to receive as members any such persons without regard to residence or occupation or any similar test.

#### CERTAIN CRITICISMS OF THE SOCIETY SYSTEM.

205. We have received evidence criticising the Approved Society system on a variety of grounds. Our attention has been directed to the extra work in accounting, auditing and in the general supervision necessitated by the existence of nearly 8,000 separate financial and valuation units. For instance, witnesses appearing on behalf of the Central Departments informed us that administrative saving would be effected by reducing the number of separate units (see *Kinnear*, Q. 638-643 and *Leishman*, Q. 1790-1791). Again Mr. Middleton, the Acting Chief Auditor, in replying to a question as to the work falling upon the auditors, said: "The fewer the units the less work, because every unit entails a kind of a nucleus or irreducible minimum of routine which could be absolutely dispensed with if its real transactions were merged into the transactions of another existing unit." "We might put it that 20 separate units of 250 members each would occupy two men for 30 days: that gives 60 man-days. A 5,000 membership group would occupy the two men for about 12 days: that gives us 24 man-days as against 60." (Q. 23,256, 23,259).

206. These criticisms relate, of course, to the cost of central administration which is not borne by the insured persons. As regards the cost to the insured members themselves, Mr. Alban Gordon expressed the view (App. XIII, 6) that "economically the excessive number of small Societies with their multiplication of establishment charges cannot fail to be an expensive method of administration." On the other hand we have no evidence that larger Societies are administered at a lower expense per head to their members than smaller Societies. The primary point in this connexion is not the size of the Society but its constitution and the agencies through which, under that constitution, its operations are conducted. Regulations fix the maximum amount per head that may be spent on expenses of administration, and so far as savings within this limit provide a criterion of relative cost, the general body of small Societies

and branches does not show to disadvantage. In this connexion we may refer to the evidence of Sir Walter Kinnear in reply to Q. 743-746.

207. Closely allied to the criticism that the Approved Society system is unduly costly in administration—indeed one of the causes for this alleged expensiveness—is the overlapping of effort for which Societies are frequently condemned arising by reason of the fact that Approved Societies may carry on business in any part of the country. In any moderate-sized town the insured persons may be scattered amongst some hundreds of Societies and branches, each of which has to make arrangements for the administration of the cash benefits to members entitled to them. For example, we were informed that in Liverpool 488 Societies have members—in Bolton 285, in Brighton 304, in Norwich 213, in Reading 245, and in Tynemouth 168 (*Kinnear*, Q. 522).

208. Again, Mr. Alban Gordon says (App. XIII, 7): "If any area is analysed it will be found to contain a large number of Societies possessing a ludicrously small membership in that district. For example, in Dundee (which is an illustration chosen at random) there are 217 separate Societies (ignoring branches), of which 99 have less than 10 members in the town, 52 of these having only one member. These Societies have their Head Offices at London, Manchester, Glasgow, Aberdeen, Edinburgh, Leeds, Portsmouth, Newcastle, Tunbridge Wells, etc."

209. The Scottish Miners' Federation Approved Society, in referring to the fact that there are 98 Societies, each with only one member resident in Glasgow, say that "were the Glasgow area treated as a single unit in preference to having approved units studded all over like a cluster of nebulae it would be possible to administer the area at an enormous economic saving to the insured population" (App. X, 13). It should be remembered in connexion with this allegation of overlapping and diffusion of effort that even where a Society may initially recruit members only within a limited area, these members may later become scattered; further, that in the case of any household comprising several insured persons, each of these may be in a different Society, and that the home may therefore require to be visited by the representatives of a number of competing organisations. Indeed in the extreme case represented by the National Amalgamated Approved Society, members of the same family, although in the same Society, may be visited by different agents, if their membership in the National Amalgamated Approved Society has been effected through the representatives of different companies interested in that organisation. The fact that the Scheme is not organised on a geographical basis adds undoubtedly to the labour involved in the administration of medical benefit, which must necessarily be conducted on a territorial basis. As the contributions on which the title to medical benefit depends are

collected through the Societies, it is necessary for information to be furnished by every Society to each Insurance Committee of all members of the Society in the area of the Committee at any time. The keeping of the "index register," which constitutes in fact the chief occupation of the staffs of Insurance Committees, is obviously a more considerable task than it would be if the whole Scheme were locally administered.

210. We do not regard this criticism with indifference, since it goes to the root of the question whether the present organisation of the system should be continued. We think, however, that its importance may be easily over-estimated. The chief criterion of the feature against which it is directed must be its effect upon the insured person. On this we have received no evidence that the insured person who has migrated from one district to another suffers delay in the receipt of benefit, or other inconvenience, from the fact that the office, or the head office, as the case may be, of his Society is not in the area in which he resides. It may be, indeed, that in this respect the existence of large Centralised Societies, with offices and representatives in every industrial centre in the country, is a positive advantage, since the member of such a Society is sure of the means by which his needs may be attended to wherever he may be. In any case, the insured person who suffers inconvenience has the remedy in his own hands, since he may transfer to a Society of his choice; and lest it should be urged that, in existing circumstances, some disability is attendant on transfer, we would add that in Chapter XIII we propose means for reducing such disability to a minimum.

211. Another ground on which the Approved Society system has been much criticised is that, notwithstanding the statutory requirement that every Society should be under the absolute control of its members, such control does not in fact exist and that, particularly in some of the larger Societies, the insured members have no effective means of exercising any influence in the government of the Society. The examination of Sir Thomas Neill, Chairman of the Executive Committee of the National Conference of Industrial Assurance Approved Societies, brought out in a striking manner the force of this criticism. (Q. 4515-4529, 4568-4743.)

212. It is doubtless true that, even in the case of those Societies to which this criticism is most applicable, the rules provide in theory a means whereby the insured members could have a share in the control of the Society if they cared to exercise it. Whatever may have happened to the substance, the semblance of self-government is at least respected. Even so, however, we were informed by an official witness that "in the light of experience we do not think that the rules of a few large Centralised Societies provide for the control by the members to

the extent to which the rules ought to provide. It is a very difficult question, because a very large proportion of insured members do not take any interest in the management of their Approved Societies" (*Kinnear*, Q. 23,571). At this stage it may be sufficient to quote further the view of the National Association of Trade Union Approved Societies, that as a condition of continued approval a Society "should give reasonable opportunities to its members to exercise some influence in its control and management" (Q. 21,837).

213. We have also received evidence suggesting the unsuitability of Societies, and especially the smaller Societies and branches, as agencies for the administration of any benefits in the nature of treatment. Under the Act as it stands, every Society and branch, however small, can provide for its members an additional treatment benefit within the limits of the amount allocated for the purpose out of its own disposable surplus. In the case of a Society or branch with a membership of about 100 the sum available each year under the allocation would not ordinarily exceed a few pounds, the whole of which might be exhausted in the first two or three claims for benefit which had to be dealt with. In consequence, in the not improbable event of the number of members desiring the benefit in any year being greater than the anticipated average, later claimants would be unable to obtain any benefit.

214. In the case of additional benefits, other than the increases of the normal cash benefits, it is also contended that the smaller Societies, in particular, are handicapped by the difficulties under which they inevitably labour in seeking to institute the necessary arrangements on behalf of their members. The peculiar character of these benefits has already been commented upon, and while it is true that they do not, in strictness, assume the form of treatment, but are rather payments towards the cost of treatment, nevertheless the work to be performed by Societies in their administration may involve the organisation of arrangements under which their members may receive treatment. For such work as this the small isolated Society or branch is, it is contended, obviously unsuited. To this consideration may doubtless be ascribed the fact that organisations such as the National Insurance Beneficent Society have been evolved to afford aid to Societies in such matters.

215. A further ground on which the Approved Society system was criticised was that it "stands in the way of the unification of social insurance which so many people now desire" (*Cohen*, Q. 19,892). In support of this, appeal was made to the fact that the Societies had not been considered to be suitable bodies for the administration of Unemployment Insurance or of the newly-introduced scheme of insurance for Widows', Orphans and Old Age Pensions. In this connexion we may also refer to the

evidence of Mr. Alban Gordon to the effect that "the present Approved Society system is not suitable for administering any other form of insurance benefit, nor does it seem capable of being co-ordinated with any other system of administration." (*App. XIII*, 19.)

216. We cannot say that criticisms of this kind commend themselves to our judgment. We have not been asked to consider the unification of social insurance, and while we cannot regard it as a practicable or desirable development merely because "so many people now desire" it, we equally cannot assume, in the absence of evidence directed to the point, that if it were introduced, no place in its administration could be found for the Approved Societies. If there are grounds for concluding that the Approved Society system is well adapted to administer the benefits of National Health Insurance, it does not appear to us that the Societies should be dispossessed from this work because some other forms of organisation are better fitted to administer other branches of social activity. The assumption implied in these criticisms that one form of organisation could equally well administer these diverse schemes of social welfare, appears to us to take for granted much that should be investigated before an opinion is formed.

217. In this rapid survey of the main lines of criticism directed against the Approved Society system, room should perhaps be found for a passing reference to one suggested element of weakness arising from the conditions under which the Insurance Scheme came into being. We have already referred to the three main types of Approved Societies—the Friendly Societies, the Trade Unions, and the Societies formed by Industrial Assurance Companies. In essence, the criticism based on the diversity of bodies engaged in the work of Health Insurance is that each of these types of organisation approached the matter with a previous history, in which its affections had already been bestowed elsewhere. Health Insurance was added to other work already undertaken; "Approved Society work was a supplementary and subsidiary activity" (*Cohen*, *App. LXXVI*, 27). It is suggested that the growing absorption in the work of National Health Insurance has in no way effected a change of heart or undermined the earlier and deeper loyalty. "Industrial Insurance Societies are much more concerned with canvassing for burial insurance. . . . To the good Trade Union official what matters are questions of wages, hours, workers' control and political representation" (*Cohen*, *App. LXXVI*, 27). In quoting Mr. Cohen's examples we do not necessarily adopt them.

#### THE INEQUALITIES OF BENEFIT.

218. The main criticism of the present system is, however, directed against the inequalities which it has produced in the

benefits to which members of different Societies are entitled, and it is contended that these inequalities are too great to be defensible in a State scheme of insurance based on compulsory contributions at a uniform rate. This result has been claimed, however, by others as an advantage of the system, in that it enables the insured to group themselves in such a way as to secure the maximum advantage from their contributions and so to neutralise whatever inequity would result from the application of a flat-rate contribution to all insured persons, regardless of the variations in their several risks as affected by occupation or environment, or in their economic condition either as classes or individuals. The Act contemplated the free formation of Societies empowered to recruit their membership on any basis they might see fit to adopt. In the result a considerable process of segregation took place, so that there are few Societies which can be regarded as being in any way microcosms of the insured population as a whole. Those which are predominantly built up on an occupational basis must inevitably reflect the health risks of the trade concerned; those whose membership is predominantly centred in certain areas must be affected by the relative healthiness or unhealthiness of the districts in which the bulk of their members are to be found. And it follows by an extension of the same reasoning, that even when a Society ostensibly opens its membership to all without distinction, it may be far from representing a fair sample of the population taken as a whole. Such a Society may be stronger in one part of the country than in another; even if its membership be spread over the whole country, it may not be uniformly strong as between urban and rural areas, or as between manual and non-manual workers. As a consequence the Approved Society system is made up of Societies resting on a segregation, conscious or unconscious, of members of varying health experience and health prospects. And as the criticism is most pointedly put, the system is accused of giving additional benefits both in cash and kind to those who having the best health experience require these things least, while withholding them from those whose needs have been shown to be sorest. The Scottish Miners' Federation, for instance, say that "no one marvels at the volume of pardonable misunderstanding and personal resentment of the insured person regarding the provision of additional benefits. He never can grasp the justice of an arrangement that gives 15s. worth of sickness benefit a week in one Society and 20s. a week in some other Society for the flat contribution of 10d. a week. . . . He regards the question as incapable of intelligent explanation and despairingly concludes that these disparities are nothing more or less than the product of an invisible evil genius entertainingly piling up an insoluble insurance puzzle" (App. X, 14). Mr. Alban Gordon states that "it is against the public interest that a member of Society A should receive far greater

benefits than his next-door neighbour who pays the same contribution but is unfortunate enough to be a member of Society B, which gives little or no additional benefits. Grave and increasing discontent will be caused if this distinction is continued or intensified" (App. XIII, 24).

#### EVIDENCE OF EFFICIENCY.

219. As against these criticisms we have, however, received a large body of evidence in support of the advantages claimed to be inherent in the present system and in favour of its retention. It was represented to us that the Societies are carrying out their work with a very fair standard of efficiency; that the contributions are being collected and the benefits administered in a satisfactory manner, and that there is no evidence of any considerable volume of opinion antagonistic to the system as such on the part of insured persons (*Kinnear*, Q. 23,543-23,546; *Leishman*, Q. 24,346). It was also urged that the present arrangement, under which every Society stands to gain or lose as the result of its own experience and standard of administration, conduces to careful supervision of claims and tends to economy and avoidance of over-expenditure on benefits (*Ancient Order of Foresters*, App. V, 24; *National Conference of Industrial Assurance Approved Societies*, App. VI, 25). Further, it was stated with much truth that the variety of types of Societies and the freedom of the insured person to choose among them are particularly well suited to the administration of a Scheme affecting many millions of the community of all types and classes and supported by a flat rate of contribution.

#### CONTINUATION OF THE SYSTEM RECOMMENDED.

220. We come, therefore, to the question whether the Approved Society system should be continued. This question must be examined from two points of view. The first is that of the maintenance of a system under which the Scheme is administered by self-governing organisations responsible for their own finance, and all that this implies in regard to additional benefits; or its supersession by a centralised system with a common fund, the benefits being administered, possibly, by local agencies but subject to close control and direction from the central governing body. The second point of view is that of the criticisms which have been directed against the methods and procedure of the Approved Societies as such, and the possibility that if these criticisms are so weighty as to indicate the desirability of abolishing the Societies, some other form of organisation, short of complete centralisation, can be found to take their place.

221. To the first of these problems we have given careful thought. We feel that if a centralised system were adopted it would compel the dissolution of the Approved Societies, since the reduction of the Societies to mere paying agencies would

involve the separation of administrative and financial responsibility, a result which could not, in our opinion, be defended. This is a serious consideration and one involving more than a mere change of method in the administration of the Health Insurance system. We feel that it is to the public advantage that this great Scheme should be administered by the representatives of the insured persons themselves, and that the governing bodies should have that full responsibility for the results of their own activities without which it is as hopeless as it would be unreasonable to look for a high standard of efficiency and vigilance. In this connexion we realise that there are features of the system which must appear to many as defects, and that these cannot be eradicated from it. On the other hand we cannot disregard the consideration that opinion as to faults and defects in a Scheme of this kind is largely a matter of the individual standpoint, and that what amounts in the eyes of some to a flaw will commend itself to others as an element of equity and justice. It is clear that if effect is to be given to the views of one school of thought, acute dissatisfaction will be aroused in the minds of those who hold the contrary opinion and regard the present machinery as equitable in its operation. We do not ourselves think that the best interests either of the State or of the insured population would be served by a vast amalgamation of all the resources of the Scheme in a common fund administered from the centre, and for the reason given we are satisfied that such an amalgamation would create as much discontent as it would allay. From this point of view, therefore, we have come to the conclusion that a system of self-governing bodies is to be preferred and should be retained.

222. As to the other type of criticisms, the substantive plea behind which is that the system of administration through the Approved Societies is open to so many objections that some new method of administration should be substituted for it, we have to take note of the fact that the Approved Societies are in possession of the field, by the action of Parliament, that they have their organisations widely distributed over the whole of the country and their staffs trained in the details of what, in many respects, is an intricate piece of social administration. The onus of showing that the system, either from causes inherent in itself, or from personal shortcomings of those by whom it is operated, works so imperfectly that it ought to be abolished, rests upon those who take this view. We have considered their evidence with care, and, we trust, without bias. We have also reviewed the evidence given to us by the large number of officials who have appeared before us as representing the Societies, and we have studied their attitude of mind in their relations with the insured person and their work generally as revealed to us by the answers given to the many questions which we have put to them. In the result we have come to the

conclusion that no case for the abolition of the Societies can be established on the broad ground of defects and shortcomings in administration. In saying this we are not to be understood as indicating that there are no faults to be remedied. We could wish, for instance, that in some quarters the interests of the insured persons were more fully considered in regard to such matters as expenditure on administration within the prescribed limit or that the rights of the members had been more fully respected when the constitutions of certain of the Societies were framed; and we have had occasional evidence, which must be treated with respect, pointing to shortcomings in the payment of benefits and other dealings between the Societies and their members. But we realise that defects of these kinds spring less from improper motives than from those human weaknesses that in some form or another must reveal themselves in whatever type of organisation may be erected to administer a great scheme such as the one we have under review; and we cannot accept them as amounting, in the whole, to the establishment of such a case against the Societies as to warrant us in recommending that they should be superseded.

It has also seemed to us in the course of our investigation that certain of the Societies may be so large as to make it impossible for the highest degree of administrative efficiency to be attained, regard being had to the limits of human capacity to deal with an intricate piece of administration of which the subjects are not mechanical but human beings with all their idiosyncrasies and weaknesses. In regard to such of these matters as seem to us capable of improvement we make appropriate recommendations. Taking everything into consideration, however, we conclude that the Approved Societies should be retained as an essential part of the system and on this fundamental question we submit a recommendation to that effect.

223. It must be clearly understood that our recommendation is made in relation to the Scheme of National Health Insurance as it exists at present, and that our view in favour of the retention of Approved Societies does not necessarily imply that developments in the system of social insurance outside the range of present contemplation might not necessitate a reconsideration of the position.

224. In disposing of this subject we think it well to refer to the existence of the considerable number of "Associations," "Conferences" and "Joint Committees" into which the Societies, which means primarily their official elements, have been banded in connexion with their work under the Acts. For the interchange of views as to the best methods of administration with due regard to the interests of the Societies and of the insured persons individually, these groupings should afford admirable opportunity and should be of corresponding value; but we are

not satisfied that this is always their primary purpose and that it is not sometimes subordinated to other objects of a less commendable character. We do not think it necessary to the welfare of the system of National Health Insurance that it should have what may, without offence, be termed a political side. To the activities engendered by such action a disproportionate part of the time of those concerned may possibly be devoted, and this must, we think, be detrimental to those important duties of daily routine in the management of the Societies which should be the first care of their paid officials. We think there is some danger to the system in tendencies of this kind, and that this may be stimulated by the arrangements under which Societies have a considerable degree of liberty in sending representatives to conferences of all kinds and remunerating them for time as well as actual expenses. If one element in the system more than any other may be regarded as a possible danger to its future, it is, we think, this inclination towards the development of what we have called a political side.

225. Having indicated these general considerations, which we think deserve serious attention, we proceed to discuss certain modifications of the Approved Society system to which, in our opinion, effect should be given as soon as possible.

#### ADMINISTRATION OF TREATMENT BENEFITS.

226. In the first place it has been submitted to us that Approved Societies are not the most suitable bodies for the administration of benefits in the nature of treatment, and that the arrangements for these benefits could be better made on a territorial basis, as is already done in the case of medical benefit. Evidence on two directly conflicting lines has been put before us on this subject. On the one hand, bodies representing the Approved Societies have urged that "all treatment benefits should continue to be administered by the Societies." (*National Conference of Friendly Societies*, App. XXVI, 29; *Loyal Order of Ancient Shepherds*, App. XLIV, 36.) On the other hand, the British Medical Association point out that the powers of Approved Societies in this respect are restricted by the Act to paying the whole or part of the cost of treatment, and that Societies are not entitled to administer the treatment benefits in the proper sense. The Association "insist that payments in respect of treatment shall be under public and not under Approved Society administration." (Q. 15,000-15,002, 15,092-15,098.)

227. Sir Walter Kinnear, giving evidence on behalf of the Ministry of Health, informed us that "the administration of schemes of treatment benefits is still largely in the experimental stage. The Societies have administered these benefits fairly well, considering the difficulties under which they work, but many of the Societies, and particularly the smaller ones, are experiencing

considerable difficulties in making the necessary arrangements for treatment benefits, and, as a result, different standards of benefit are being granted by different Societies throughout the country. Few Societies are entirely local, and, as most may have members anywhere, the provision of treatment services implies an obligation to provide the treatment in areas where the Society not infrequently has not got adequate machinery for the task. The marked increase in the amount of money devoted to treatment benefits is accentuating the necessity for the administration of these benefits being co-ordinated through one local committee in each area." (Kinnear, Q. 23,543.)

228. We recognise that so long as any particular forms of treatment are provided only as additional benefits by certain Societies which elect to give them, and so long as different Societies allocate widely different amounts per head of membership for the provision of any benefit, the administration must remain in the hands of the Societies, at any rate, in so far as the consideration of claims for benefit is concerned. For, under these conditions, it will be clear that there will be a varying standard as between Societies, not merely so far as concerns the scale on which they may be able to assist their members, but also in regard to the scope of the treatment in respect of which help may be granted. On the other hand, if it should be possible to eliminate completely such divergences by taking any treatment benefit out of the category of additional benefits and transforming it into a statutory benefit, the whole of the administration would, of course, pass from the hands of the Societies into those of the local bodies responsible for the administration of medical benefit. In the circumstances that confront us this is a matter for the future, but we think that even under present conditions where a treatment benefit (e.g., dental benefit), is provided only as an additional benefit, but has nevertheless in fact been so widely adopted that it has been made available for a large proportion of all the insured persons in every part of the country, it would be an advantage that the negotiations with the profession by whom the service is to be provided, so far as regards the terms and conditions of service, should, as in the case of the medical service, be undertaken by the Central Government Departments. Further, we think that the supervision of the service should rest with those Departments either directly or through the agency of the local bodies responsible for the administration of medical benefit. Such an advance to uniformity would, we think, further imply that a greater attempt should be made than in the past to secure that the same benefit shall have a more or less uniform content as between different Societies.

#### MINIMUM MEMBERSHIP OF APPROVED SOCIETIES.

229. We have received in evidence various suggestions as to the desirability of requiring a minimum membership as a condition

of continued approval of Societies. While some witnesses have expressed the view that it is neither practicable nor desirable to impose any such minimum limit, others have suggested a limit varying from 500 (*Independent Order of Rechabites*, Q. 6178-6179) to 100,000 (*National Conference of Industrial Assurance Approved Societies*, Q. 4990). We have been informed that some of the defects in administration which are manifested from time to time are attributable in certain cases to smallness of membership, and in particular to the fact that it may not be possible, within the amount available for expenditure on administration, to secure the services of competent officers (*Kinnear*, Q. 537,589). On the other hand we are assured that the efficiency of a Society does not vary in direct proportion to its membership, and that there are small Societies whose administration is entirely satisfactory as well as large Societies where this is far from being the case (*Kinnear*, Q. 23,562, 23,587). We are also informed that from the point of view of actuarial soundness and financial stability, a large membership is not essential (*Kinnear*, Q. 535; *Leishman*, Q. 1892). Moreover, we feel that the present widespread system of local administration through small units has the advantage of providing a closer touch between the individual insured person and his Society, and enables a very large number (estimated to be as high as 100,000) of working men and women to gain some experience of public work and social administration, with results which cannot fail to be for the general good. It is, moreover, in the Societies of this type that the tradition of voluntary and public spirited service is often best maintained. The disappearance of this tradition could not, in our opinion, be viewed otherwise than with regret.

230. We feel, therefore, that it would be inexpedient to place any arbitrary restriction on the size of Societies without regard to the quality of their administration and their effectiveness as self-contained insurance units. At the same time we think that there should be adequate provision for dealing with Societies whose administration is deficient in any respect. This is, however, not a matter which can be confined to small Societies, and we shall return to it later in relation to Approved Societies in general.

#### CONTROL BY MEMBERS.

231. The next point of criticism of the Approved Society system as it now exists is that, although one of the main reasons advanced in support of the adoption of the system was that it would place the management and control of National Health Insurance business in the hands of the insured persons themselves, yet in actual practice this has not been the result, so far, at any rate, as many millions of insured persons are concerned. We have had ample evidence (*National Conference of Industrial Assurance Approved Societies*, Q. 4568-4743) that in some of the

largest Societies associated with Industrial Assurance Companies there is no effective means whereby the members could exercise control over the affairs of the Societies, whilst in many other Societies where the rules do contain provision for enabling such control to be exercised, the vast majority of members, mainly, no doubt, by reason of indifference or apathy, do not avail themselves of their opportunities and evince little or no interest in the affairs of their Societies. We, therefore, think it worth while to examine at some length this question of control by members and to consider what standard should be aimed at and could reasonably be expected.

232. The Act, as has already been indicated, makes express provision that the constitution of every Approved Society "must provide for its affairs being subject to the absolute control of its members." The Act, that is to say, insists on the opportunity of control, but even an Act of Parliament could hardly insist on this control being exercised. We cannot share the surprise which is sometimes provoked by contemplation of the apathy of insured persons in these matters. The world makes so many claims on everyone that the number of things in which any of us can be keenly interested constitutes only a small fraction of those in which, as public-spirited citizens, we ought to be interested. Though we may conspire to conceal it, the truth seems to be that those who have time to be both actively and intelligently interested in all the things that affect them, individually or as citizens, are exceptional. Nor is this peculiar to any class of the community. The placidity of a County Council election, the harmony of the necessary quorum at an ordinary shareholders' meeting, the unreasoned faith of the simple man in his Bank or his Life Assurance Company, alike bear testimony to the fact that in such matters "men are unwise and curiously planned," and that most of us are content not to be too keenly interested even in matters which may directly affect us. There can be but few who, surveying their scanty and superficial knowledge of the facts underlying current controversy, can truthfully declare that they have maintained that degree of interest in public affairs which good citizenship postulates.

233. Applying these considerations to the apathy of insured persons, the situation surely is one which, however regrettable, is not merely wholly natural, but is in fact paralleled in nearly every department of the public life of the community. To expect that the great bulk of insured persons should display an active interest in the administration of the Act is to court disappointment. To put it no higher, it is not an attractive field of study, and it is probably asking too much of insured persons to suggest that they should attend meetings to discuss, for example, the propriety of the claims for sickness benefit which some of their fellows, unknown to them personally, are making, or the intricacies of particular regulations which, for the time being, have become of special interest to the Society.

234. It is, therefore, not surprising that those who are not drawn to the older Societies by their interest in other matters should be content to leave their insurance affairs in the hands of Societies which make the minimum demands on their time and attention. Nor is there any great harm—and there may be some advantage—in the existence of such Societies, provided they are efficiently and economically managed, and that their constitution furnishes effective means for the control of the Society's affairs by the members should occasion arise. On this last point there is clearly room for improvement, and we recommend that in connexion with the general review of the rules of Societies, to which we refer later in this Chapter, any Society whose present rules are found not to provide an effective means by which the members can exercise control, if they desire to do so, should be required to amend its constitution in this respect.

235. One last point on the real social significance of self-government. The question as it arises in connexion with Health Insurance is sometimes spoken of in terms of insured persons looking after their own affairs. This is, we think, to misconceive the point. It may be doubted whether those members, whose zeal in the administration of their Societies is rooted in a desire to look after their own affairs, will in fact approach the task in the right spirit. Rather will these tend to be valetudinarians. It is truer to regard the administration of a Society as offering an opportunity for public service in the interests of others, and it is safe to say that the great bulk of those who are engaged in the administration of those Societies with older traditions behind them are not in fact consciously looking after their own affairs. They are there because they desire to find some useful work which they can do for their fellows. Democracy is a means and not an end in itself, and it is not, therefore, to be condemned for relative shortcomings, so long as it is in some measure an efficient means to that greater end for which it is designed. If it be permissible in these days to quote an eminent Victorian, it should be remembered that "the business of life is an essential part of the practical education of a people." The fact that there are other channels by which a similar training in administration and affairs may be obtained cannot, except by the intolerant, be urged as a reason for despising the contribution which voluntary Friendly Societies make to our public life. All things do not appeal to all men, and diversity of opportunity in such education cannot but enrich the Commonwealth.

#### SUPERVISION OF APPROVED SOCIETIES BY THE CENTRAL DEPARTMENTS.

236. Under the Act of 1911 Societies, when once approved, were given almost complete autonomy, and although it appeared

to be implied throughout the Act that the Minister, as representing the Central Government, was to exercise some kind of general supervision over the administration of the Scheme, this was nowhere expressly stated and the powers assigned to him under the Act were extremely limited. Before any Society could secure approval, it was required to submit its proposed rules for the sanction of the Minister, but when once those rules had been approved, it was apparently contemplated that the Society should be left to go its own way, subject to two limitations only in the way of control by the Central Department.

237. In the first place, it was required to submit its accounts for audit by auditors appointed by the Treasury, whose duty it was to see that any expenditure out of its State funds had been properly incurred in accordance with the provisions of the Act; and secondly, the power was given to the Minister to withdraw approval in the event of the Society failing to comply with any of the provisions of the Act. Outside the ordinary daily routine work of administration, it is true that the Insurance Commissioners, as they then were, exercised certain powers as the ultimate court of appeal in the case of disputes between a member and his Society. It is also true that periodically after valuation the consent of the Central Department was required to a scheme of additional benefits, or a scheme for making good a deficiency, as the case might be. But undoubtedly a perusal of the Act of 1911 conveys the impression that a minimum of control had been left with the Department concerned, and that it was intended that Societies should be masters in their own house. It was soon recognised that such powers of control as were vested in the Department were too limited, and in the Act of 1913 provision was made enabling the Insurance Commissioners to withdraw approval from a Society on account of maladministration of its affairs, where it appeared expedient in the interest of the members of the Society to do so. A further measure of control was given under the Act of 1918, which applied to officers of Approved Societies certain penal provisions of the Friendly Societies Acts providing for the infliction of penalties on individual officers of Societies guilty of negligence in carrying out their statutory duties.

238. We were informed in evidence given on behalf of the Ministry of Health (*Kinnear* 567-570, 23,496-23,516) that even with these extensions the powers of supervision vested in the Minister are insufficient to enable him to take effective steps to secure and maintain in all cases the high standard of efficiency in the administration of Societies which is considered essential, and that circumstances arise from time to time pointing to the desirability of a further strengthening of his powers of control. Bearing in mind that we are here concerned with the administration of a scheme, which is financed by contributions compulsorily collected from the insured persons and their em-

ployers and supported to a substantial extent at the cost of the taxpayer, we concur in the view that the responsible department of the Central Government must be armed with adequate powers to insist on a proper standard of administration and to take effective action where any Approved Society falls short of administrative efficiency in any respect.

239. We feel that withdrawal of approval, though an appropriate weapon for grave disorders is too drastic a remedy for minor irregularities and that, moreover, it involves a procedure which may appear somewhat too formal where great issues are not at stake. We are also informed that the application of the penal provisions of the Friendly Societies Acts, to which reference has been made above has proved ineffective by reason of the fact that it involves proceedings in a court of summary jurisdiction, a course which the Department will always hesitate to take except in extreme cases (*Kinnear* 23,496). We have carefully considered what powers might appropriately be given to the Department to enable it to deal effectively with defective methods of administration on the part of an Approved Society where the alleged defect is not of so serious a character as to warrant a charge of general maladministration. The first type of case which may be considered is that of a Society whose rules contain some provision prejudicial to the interests of the members or inconsistent with sound administration and which refuses to make the necessary amendment of its rules. There are also cases where the rules, being based on the original Act of 1911, and having undergone no subsequent amendment, cannot fail to mislead the members. We were informed that when in 1912 Societies were being granted approval at the rate of some hundreds a week, it was impossible for the examination of their rules to be undertaken with the full care and attention that was desirable and that as a result some unsatisfactory provisions were passed by inadvertence. Moreover it is to be remembered that the examination of rules in 1912 was carried through at a time when there was as yet no experience of the operation of the Act, and that the desirability of amendment may only have become apparent in the light of later events. It appears that a few Societies persist in taking advantage of this position and refuse to give effect to the suggestions which have been made by the Department for the repeal or amendment of the rules in question. And as things are at present, when rules have once been sanctioned, the Minister has no power, apart from the exercise of tactful persuasion, to secure a subsequent amendment even when later legislation may have rendered certain rules wholly inoperative.

#### AMENDMENT OF RULES.

240. We consider that provision should be made in the Act to empower the Minister, in any case in which the rules of a Society

do not in his view adequately provide for its proper government, or are likely to operate unfairly to the prejudice of its members, to give notice to the Society, not less than one month before a general meeting, requiring it to consider the making of an amendment to the rule to which exception is taken. We further recommend that if in any case a Society should refuse or neglect to make the required amendment, the Minister should be empowered to make an Order directing that it should be deemed to be incorporated in the rules of the Society. We recognise that this proposal may be criticised in certain quarters as an infringement of the important principle of self-government of Societies by their members. We do not in any way suggest that this principle should be abrogated or that it should be open to the Minister to override the wishes of members and alter the rules of Societies as he may think fit. In order to make this clear and to provide the necessary safeguard, we suggest that it should be open to a Society to appeal against an Order of the Minister directing an amendment in its rules, and that the Society's objections should be heard and decided by some independent tribunal.

#### THE DISPUTES PROCEDURE.

241. As an illustration of the type of rule to which the suggested procedure might have to be applied, we may refer to the rules relating to the settlement of disputes between Societies and their members. We were informed that the Model Rule on this subject issued by the Department has been adopted by over 800 Societies, or more than four-fifths of the total number (*Kinnear*, Q. 23,750). This rule provides for disputes being referred to one tribunal only, before reference to the Minister, who is the final court of appeal under the Act. We were told, however, that the rules of many Societies dealing with this matter are still unsatisfactory. In England 13 Societies require appeals to be referred to two tribunals before reference to the Minister and 10 other Societies interpose three tribunals. There is, moreover, considerable variation in the time limits imposed by rule prescribing the period within which an aggrieved member is required to lodge an appeal, and in some of these there is reason to believe that the time limit operates harshly. In some cases onerous deposits varying in amount from 5s. to 35s. are required from members before their appeals can be heard. We are of opinion that in the case of centralised Societies there should be only one tribunal within the Society for the hearing of appeals before reference to the Minister, and that in the case of a Society with branches not more than two such tribunals should be allowed, first, the branch tribunal, and, secondly, a tribunal of the District to which the branch is attached, or of the central body of the Society.

## INQUIRY INTO ADMINISTRATION.

242. We come now to the question of conferring on the Central Departments power to deal with cases of defective administration on the part of Approved Societies where the defects alleged are not of such a grave character as to amount to general maladministration and could not, therefore, be appropriately dealt with under the provisions relating to withdrawal of approval. In these circumstances we consider that the Department should be empowered at any time to hold an inquiry into the methods of administration of a Society where there is a *prima facie* reason for believing that the administration is deficient in any respect. If, as the result of such an inquiry it is established that the standard of administration of the Society is unsatisfactory, the Minister should be authorised to require the Society to introduce such reforms as may be necessary, and if, after due warning has been given to the Society, reform is not effected, the Minister should be empowered to order such a reduction as he may think fit in the amount which the Society may be allowed to appropriate towards the cost of its administration. Inasmuch as the normal administration allowance is fixed in relation to a proper standard of administration, we consider it to be entirely proper that the rate should be reduced where the administration falls short of that standard. We further recommend that if, notwithstanding the imposition of the suggested penalty in the form of a reduction of the administration allowance, a Society still refuses or is unable to bring its administration up to a proper standard of efficiency, the case should be treated as one of maladministration justifying recourse to the procedure for withdrawal of approval.

## CONTROL OF EXPENDITURE.

243. The next point in which we consider that the powers of the Central Departments require to be strengthened is to be found in the method of dealing with improper expenditure by Approved Societies. All expenditure by Societies and Insurance Committees out of National Health Insurance funds is subject to audit by auditors appointed by the Treasury. There is, however, this important distinction, that whereas in the case of Insurance Committees the auditor has power to disallow and surcharge any item of expenditure which he considers to be improper, or not in accordance with the provisions of the Act and Regulations, he is not vested with this power in relation to the audit of Approved Societies' accounts and can only deal with cases of improper expenditure by way of a reservation in his report on those accounts. Any such reservation is brought to the notice of the Central Department who communicate on the matter with the Society concerned in order to secure, if such a course is reasonable or practicable, the repayment into the

the Society's State Insurance funds of the amount improperly expended, or, at any rate, in the hope of obtaining an adequate assurance from the Society that the improper expenditure in question will not be allowed to recur. We were told in evidence by a witness representing the Ministry of Health (*Kinnear*, Q. 23,496), that under the present procedure it is possible to dispose satisfactorily of the great majority of instances of improper expenditure by Societies, but that cases occasionally arise in which a Society declines to deal with the matter in the manner which the Department thinks proper, or to give any assurance that the improper expenditure will not be repeated. We questioned the Acting Chief Auditor of the National Insurance Audit Department as to the differentiation of treatment accorded to Approved Societies and Insurance Committees in the matter of improper expenditure, and he sought to justify this differentiation. He said: "When we disallow and surcharge in the case of Insurance Committees we have to allege negligence or misconduct on the part of the people who are being surcharged. When we consider how Approved Society expenditure is actually incurred we should find that the secretary of the group is normally a man wielding a fairly wide general executive power, in many cases merely having his action ratified at a later time. That would involve, I think, the almost inevitable surcharging of him in practically every case of improper Approved Society expenditure, and that would be an impossible position." (*Middleton*, Q. 23,265.) We cannot admit the logic of this distinction. The State Insurance Funds of Approved Societies are statutory funds held in trust by the Society for the benefit of its members, and may be used only in accordance with the provisions of the Act, and we feel that where funds of this character are in question the audit provisions are not complete unless they include the power of disallowance and surcharge. We were informed that it had only been necessary to apply this power to a very small number of disallowances in Insurance Committees' accounts, and we anticipate that it will not be otherwise if the power is extended to cover Approved Societies. None the less, we feel that it will be an effective and necessary weapon, to be used in the few extreme cases which cannot be dealt with satisfactorily without it and that its existence in the armoury may even be beneficial apart from the use that may be made of it.

244. We, therefore, recommend that the auditors of the National Insurance Audit Department should be given the power of disallowance and surcharge in the case of improper expenditure by Approved Societies, and that, as in the case of Insurance Committees, this power should be accompanied by power to the Minister to remit any surcharge, or to recover any overpayment as he may think proper in the circumstances of any particular case.