permit of it, we see no reason why this change in the practice of the Ministry should not be introduced at once.

449. It has been suggested to us by some witnesses, including those representing the Association of Insurance Committees, that an Insurance Committee should be able to make representations to the Minister against the inclusion of a doctor in the list of insurance practitioners where they consider that there are good reasons against such inclusion. (App. XXXVI, 37 and 39.) This proposal was strongly opposed by the witnesses from the British Medical Association. (Q. 15,214-15,215 and App. XLVII, 36.) The witnesses who gave evidence on behalf of the Ministry of Health regarded the suggestion as administratively inexpedient, if not impracticable, on the ground of the difficulty of establishing before a practitioner came on the List that his inclusion would be prejudicial to the efficiency of the Service. (Q. 23,999.) We are satisfied that it is inadvisable that the suggested change should be made.

CHAPTER XIII.

MISCELLANEOUS QUESTIONS.

450. In this Chapter we propose to bring together and discuss a large number of suggestions which we have received in the course of our inquiry, directed towards various modifications in the existing scheme of National Health Insurance. In dealing with a measure so complex as the subject of our investigation has proved to be, bearing so intimately on the daily life of almost every member of the community in one way or another, and so closely related to every aspect of social legislation, it was only to be expected that there should be a vast number of proposals for amendment of one or other of the many sections of the Act or of the regulations made thereunder. Some of these proposals are in their way directed to fundamental points of principle; a few may appear to relate rather to matters of administrative detail. In bringing them together for discussion in this Chapter we desire to guard ourselves against any suggested implication that these matters, being of a miscellaneous are therefore of an unimportant character. We have adopted this arrangement because the questions which we now propose to discuss do not fall naturally within the scope of any of the main sections into which we have divided our Report.

451. The subjects dealt with are classified under the following ten main headings:—

SECTION A.—Persons to be included in the Scheme.
" B.—Payment of Contributions.
" C.—Administration of the Cash Benefits.
" D.—Special Classes of Insured Persons.
" E.—Valuation of Societies and Provision of Additional Benefits.
" F.—Extension and Alteration of the List of Additional Benefits.
" G.—Limitation on Increases in Cash Benefits.
" H.—Miscellaneous Questions affecting Approved Societies.
" K.—Other Miscellaneous Questions.
" L.—Audit of Accounts.

SECTION A.—PERSONS TO BE INCLUDED IN THE SCHEME.

EMPLOYED CONTRIBUTORS.

452. The classes of persons who, under the existing Scheme, are subject to compulsory insurance are set out in Part I of the First Schedule to the Act and include briefly persons between

the ages of 16 and 70 who are employed under a contract of service or apprenticeship. Part II of the same Schedule sets out the classes of employment which are excepted from insurance, of which the chief are :—

(1) Employment under the Crown or any Local Authority, or as a salaried official of a railway or other statutory company, provided in each case that the terms of service make provision during sickness at least as favourable as that made under the Act; and

(2) Employment of a non-manual character at a rate of remuneration exceeding £250 a year.

453. We were informed in evidence given on behalf of the Ministry of Health that there has been no serious demand for any extension of the classes who are required to be insured (*Kinnear*, Q. 28). We received, however, from other witnesses suggestions for the inclusion of boys and girls in employment below the present age limit of 16, and of those persons remaining in employment beyond the present higher age limit for insurance; and further, for the extension of the income limit for the insurance of non-manual workers from the present figure of £250 to £350 a year. The British Medical Association, on the other hand, put before us suggestions for a lower income limit, e.g., £150 a year, to be applicable to manual as well as non-manual workers as part of a larger proposal for the exclusion from medical benefit of persons who (in the view of the Association) might reasonably be expected to make provision for themselves, and the inclusion of persons (particularly the dependants of insured persons) for whom medical treatment might properly be provided through a State scheme of insurance. On the general aspects of this proposal we have already commented in previous Chapters.

454. From the inception of the Scheme of National Health Insurance the age limits for the payment of contributions and title to sickness and disablement benefits have been 16 and 70. We have had little evidence in support of any change of these limits. The Scottish Miners' Federation suggested that logically boys and girls ought to come under the Health Insurance Scheme as soon as they begin to be employed, which is in many cases before they attain the age of 16 (Q. 6948-6949). The Lancashire and Cheshire Miners' Permanent Approved Society also were of opinion that it was desirable that insurance should begin with the commencement of employment, and gave as their chief argument in support of this view the undesirability of there being any gap in the provision for medical supervision of the health of boys and girls between the cessation of the provision made under the School Medical Service and the beginning of that under the National Health Insurance Scheme when they reach the age of 16. (App. XI, 4; Q. 7060-7064, 7093-7096, 7116-7121). The National Association of Trade Union Approved Societies, having in view a closer co-ordination of Public Health and Medical Services, suggested that boys and girls should become compulsorily insured immediately upon taking up employment after leaving school. (App. XCII, 52-54; Q. 21,854.) The British Dental Association also call attention to the importance of continuous arrangements for dental treatment, and state that if such treatment were afforded as a statutory benefit for all insured persons, it would be most unfortunate that there should be an interval of about two years between leaving school and attaining the age of 16 during which the boy or girl would be left without any provision for obtaining dental treatment. (Q. 9227.)

455. On the other hand we are informed by Sir Walter Kinnear (Q. 37) that there is no real demand for the insurance of employed persons under the age of 16, and we have had no evidence that employers give any preference in employment to boys and girls under that age on the ground that insurance contributions are not payable in respect of them. The witnesses from the National Conference of Friendly Societies (App. XXVI, 10), the Manchester Unity of Oddfellows (Q. 5823-5824), and the Rational Association Friendly Society (Q. 6563-6564) were all of opinion that a lowering of the age limit was not desirable.

456. We do not consider that the arguments in favour of a lowering of the age limit for insurance are many or of great weight. The question of reducing the age limit in the case of Unemployment Insurance was recently considered by Parliament, and it was decided that the present limit of 16, as in the case of Health Insurance, should be retained. The determining factor in arriving at this decision was the trend of educational policy in this country which is in the direction of treating the period between 14 and 16 as one for which educational rather than industrial provision should be made. In so far as the normal school leaving age extends beyond 14, the gap in the provision of medical and dental supervision will become less, and in any case we do not consider that serious consequences need be feared as a result of this short interval if good habits have been inculcated as the result of the School Medical and Dental Services.

457. There are, moreover, serious practical objections to any lowering of the age limit for insurance. Such a change would either involve a special reduced scale of contributions and benefits at the ages of 14 to 16, causing considerable administrative difficulties, or it would necessitate the reconsideration of the financial structure of the Scheme.

458. As to the higher age limit of insurability, the position has been materially affected by the passing of the Widows', Orphans'

and Old Age Contributory Pensions Act. Under that Act from January, 1928, the higher age limit for the payment of contributions and for the title to sickness and disablement benefits under Health Insurance will be reduced from 70 to 65, at which age the title to contributory old age pensions will mature. We are satisfied that even where a person continues in employment after he has become entitled to an old age pension, it would be undesirable that he should be entitled, in addition to that pension, to receive sickness benefit when unable to work through illness. We note also with satisfaction that the Contributory Pensions Act provides that all persons who remain in insurance up to the age of 65 are to continue to be entitled to medical benefit for the rest of their lives. This provision sufficiently meets a case on which we received some evidence in the earlier stages of our inquiry, viz.: that of persons who cease employment before the age at which, under the Act as it now stands, the title to medical benefit for the rest of life is secured. We do not feel it necessary to make any recommendation with respect to the medical benefit of persons whose employment ceases before the age of 65, as it may be expected that such persons will now have a greater inducement to continue their insurance as voluntary contributors up to that age in order to preserve their valuable rights under the Contributory Pensions Act.

459. On the question of the income limit for insurability, we have carefully considered the proposal of the British Medical Association, that such a limit should be fixed for manual as well as non-manual workers. (App. XLVII, 8-18; Q. 14,689-14,708, 14,806-14,817, 14,914-14,944.) We are definitely of opinion that such a change would be undesirable. We think that the present principle which draws a firm distinction between manual and non-manual labour beyond a certain point is sound, inasmuch as the manual worker, whatever his earnings at any moment may be, is generally subject to economic conditions which render an insurance provision highly desirable. Where a manual worker is gaining a high rate of remuneration, it will generally be found that there is an element of instability of some kind in his employment. His work may be subject to broken time, or he may be seriously exposed to the graver evil of unemployment. Alternatively, his wage rate may be subject to considerable variation. In either case his rate of remuneration at any moment will furnish an unsatisfactory indication of what he may gain over a relatively lengthy period of time such as a year. There is the further point that in such cases the insured person might, on any income limit, be alternately, and with considerable frequency, entitled and disentitled to medical benefit. The only practicable method of dealing with this administrative difficulty would be to determine prospectively for a certain period

an insured person's title to benefit by reference to his financial position retrospectively, and it hardly requires to be pointed out that the adoption of such a solution might have the effect, and indeed would not infrequently have the effect, of granting an insured person medical benefit while his earnings were high, and withdrawing it in the subsequent period when his earnings might be reduced. This result would curiously defeat the whole purpose of the suggestion. Apart from such administrative difficulties we feel, moreover, that it would be a retrograde step to exclude from the Insurance Scheme, or even from the title to medical benefit under the Act, any section of the community which has hitherto been included and which has generally, so far as we have been able to gather, become not merely accustomed to insurance but appreciative of the benefits which it provides.

460. In the case of non-manual workers, the limit for insurability was raised in 1919 from £160 to £250 a year owing to the change in economic conditions. We are informed that the operation of the limit offers no more administrative difficulty than is to be expected (Kinnear Q. 36; Leishman Q. 1551). Our attention has been called to the fact that the income limit for non-manual workers has recently been increased in the Workmen's Compensation Act to £350, and a few witnesses have suggested that the income limit for non-manual workers should be similarly raised for National Insurance (Loyal Order of Ancient Shepherds, App. XLIV, 16; Q. 14,076-14,085; National Association of Trade Union Approved Societies, App. XCII, 55-59; Q. 21,855-21,856). But in regard to this point there has always (except for a short period pending the amendment of the Workmen's Compensation Act) been a difference between the two systems, the original limits having been respectively £160 and £250. We doubt whether such an extension would be welcomed by those primarily affected, and in any case we are of the opinion that any proposal to bring National Health Insurance into line in this respect with Workmen's Compensation would meet with strong opposition both from employers and from the Medical Profession. In the circumstances, the position should, we think, remain unaltered.

461. It was suggested to us by the British Medical Association that persons such as bank clerks, insurance officials, and others who normally pass beyond the income limit of insurability at a comparatively early age, should be excepted altogether from Health Insurance (App. XLVII, 15; Q. 14,877-14,890; 14,914-14,926). No claim was, however, made to us by, or in the name of, these particular classes of insured persons for their exception from the Scheme. On the contrary, we had some evidence that the protection provided by the Health Insurance system is becoming increasingly valued by persons of this class, and in particular that they desire to participate in the valuable additional

benefits in the form of treatment which are being provided out of the substantial surpluses accruing to the particular Societies catering for them. We return to this subject at a later stage in this Chapter (para. 589). We feel, moreover, that the demarcation of new classes for the purpose of adding to the list of employments to be excepted from insurance would give rise to very difficult administrative problems and, in practice, would be bound to lead to many hard cases. In this connexion we would refer to the evidence of Sir Walter Kinnear, Q. 23,397 and 23,403. We do not, therefore, recommend any alteration of the present income limits for compulsory insurance.

462. Another proposal for the exclusion from Health Insurance of a class of employed person who at present fall within the compulsory provisions of the Act was made to us by the Stepney Borough Council (App. LXXXVIII). The persons in question are men who are given casual work by the Council, e.g., on the cleansing of streets under schemes for the relief of unemployment. The main argument put forward by the Council in support of their proposal was that the whole period covered by employment of this nature in the case of any one man in any year was so short that he could derive little or no advantage by the payment of Health Insurance contributions in respect of the employment. On the other hand, however, even a short period of employment occurring in a prolonged spell of unemployment may be of value to an insured person, by reducing his arrears and thereby assisting him to avoid reduction in his benefits. Moreover, as was brought out in the examination of the witness who appeared before us on behalf of the Council, no case could be made out for differential treatment of this particular type of casual employment (*Barnby* Q. 21,325 and 21,330), while a general exception of all casual employment would give rise to serious difficulties involving great danger to the whole system of collection of contributions. We do not, therefore, see our way to make a recommendation in the direction desired.

463. A further suggestion for an extension of the classes of persons who are excepted from compulsory insurance was made to us by the Welsh Area of the National Union of Clerks and Administrative Workers (App. CXXXI, 7). The Union submitted that clerks and salaried officials who, as a condition of their employment, contribute to a fund which provides sickness and disablement benefits of at least equal value to those given by the Act, should be excepted. We cannot, however, see our way to recommend the adoption of this proposal. We would point out that there is not, in the case of employment of the nature referred to by the witnesses, the same security of tenure as in the case of employment under the Crown or by public authorities or statutory companies, nor are the conditions of employment of the permanent nature which characterises the various classes of employment which are already excepted.

464. We have received from the Ministry of Health one small suggestion for the extension of the classes of persons to be subject to compulsory insurance. It was pointed out to us (*Kinnear*, Q. 23,398, 23,400-23,402) that the ordinary test of contract of service is not fulfilled in the case of certain classes of persons who, although undoubtedly members of the wage-earning classes, cannot be said to be employed under the ordinary relationship of master and servant, e.g., tree fellers, hay cutters, stone breakers, market porters, and the like. Doubtful cases of this character are, we are informed, constantly arising for investigation by the Department, and the question of the existence of a contract of service often turns on fine distinctions in the facts, or in the way in which the facts are presented. Generally speaking, there is a desire for Health Insurance (but not so much for Unemployment Insurance) amongst these persons, and not uncommonly they stamp their own cards, sometimes as voluntary contributors, but more often, and in this case irregularly, as employed contributors. The employers, however, usually seek to avoid the payment of contributions whether exigible or not. It has been suggested to us that cases of this type should be included among the classes liable to insurance.

465. We are also reminded that the advent of the Widows', Orphans' and Old Age Contributory Pensions Act is bound to accentuate the difficulties referred to, and we are informed that during the passage of the Contributory Pensions Bill through Parliament there were several demands for the inclusion of workers of this class.

466. We are impressed by the evidence which we have received in regard to this matter, and we recommend that Part I of the First Schedule to the Act should be extended by the addition of a paragraph to the following effect:

> Employment under a contract for the performance of manual labour for the purpose of any trade or business, except in so far as such employment may be excluded by a Special Order. The person in or for the purpose of whose business the manual labour is performed shall be deemed for the purposes of this Act to be the employer of the person by whom such manual labour is performed.

467. The Special Order would provide for the exclusion of persons not ordinarily themselves engaged in the performance of manual labour under the contract and also possibly for any particular employments where the conditions do not approximate to a contract of service.

468. The class of persons we have in mind usually work fairly regularly for the same employers, but even where they work for several employers the collection of contributions should not be attended by any more difficulties than arise at present in the case of dockers and other casual labourers and outworkers.

Voluntary Contributors.

469. In considering the classes of persons to be insured under the Scheme, the general principle to be aimed at should, in our view, be to include as far as possible all those persons who cannot reasonably be expected by their own individual efforts to make provision similar to that which may be obtained under the Act. This principle is perhaps of easy application in the case of persons engaged by an employer, but there are, of course, large numbers of persons who are not so employed but whose need for the benefits provided by the Act is equally great. We have considered whether it is possible and desirable to make provision for the voluntary insurance of this class, which includes the small shopkeeper, the hawker, the crofter, and the like. We questioned Sir Walter Kinnear on this subject and may quote from his reply: "I may say with regard to the question of voluntary insurance of the small shopkeeper, and persons of that class, there is, of course, no employer in respect of such persons, so that there is no machinery by which we could properly get in the contributions. The Commission are aware that the 1911 Act allowed such persons to be insured as voluntary contributors at a rate of contribution graded according to their ages. The Ryan Committee in 1916 recommended that admission to this class should be abolished on the ground that only some 28,000 persons had availed themselves of the right of voluntary insurance and this number did not justify the troublesome administrative machinery that was required. This was done by the 1918 Act. Under the Contributory Pensions Act passed during this year a very wide door has been opened for a limited time to entry into voluntary insurance of persons who have at some time since July, 1912, had 104 weeks' insurance or excepted employment. So that, of course, the matter to a large extent has rectified itself. This will meet the case of the great majority of persons not now insured who may reasonably be allowed into voluntary insurance. It would not be practicable without a grading of contributions to give a continuing right to uninsured persons to come in as voluntary contributors, and we rather suggest that no extension of the existing provisions in this respect is called for, especially in view of the Pensions Act of this year." (Q. 23,398.)

470. At no time since the inception of the Act has the number of voluntary contributors been considerable, and we are informed that at the present time the number in England is only about 30,000. These are in the main persons who, having been employed contributors, desire to continue in insurance after ceasing insurable work. Voluntary contributors pay the whole weekly contributions themselves and receive the ordinary and additional benefits of their Society, subject to the limitation that a voluntary contributor whose total income from all sources exceeds £250 a year is not entitled to medical benefit, and in such cases the contribution is reduced by 2*d*.

471. We have received no evidence of any considerable demand for the extension of the existing facilities for voluntary insurance. Some societies have pointed out the limited number of the class and have commented on the fact that a large proportion of voluntary contributors do not continue the payment of their insurance contributions for more than a few years. The National Amalgamated Approved Society, for instance, informed us (Q. 10,581-10,585) that of a total membership of approximately 2¼ millions they had only 2,023 voluntary contributors, and that the tendency was for such contributors soon to drop out of insurance. Similar evidence was given by the Ancient Order of Foresters (Q. 4392-4395) and the Independent Order of Oddfellows, Manchester Unity (Q. 5815-5816; 6082-6084). The Act expressly provides that no married woman may be insured as a voluntary contributor. This restriction was no doubt included in the Act because of the extreme difficulty of supervising married women in receipt of Sickness or Disablement Benefit, and in particular, of seeing that the insured person does not, during sickness, continue to carry on to a greater or less extent her normal household duties. The National Union of Societies for Equal Citizenship have urged that this restriction should be withdrawn, and that married women should be allowed to be insured as voluntary contributors on the same terms as any other persons. (App. XCIX, 8; Q. 22,986-22,990; 23,007-23,009 and 23,013-23,018.)

472. In view of the serious difficulty just indicated we cannot recommend the adoption of this proposal. It must, however, be borne in mind that as regards maternity benefit, the married woman, who is not herself insured, will ordinarily be entitled to the benefit by virtue of her husband's insurance; and where the husband is not employed, special provision has now been made under the Widows', Orphans' and Old Age Contributory Pensions Act entitling the husband to become insured as a voluntary contributor if his wife was herself an insured person before marriage. If the uninsured wife of an insured man were permitted herself to become a voluntary contributor, the effect would be to evoke a double contribution for her existing rights to a widow's pension and a pension at 65, since contributions have to be paid under both Schemes by a single stamp.

473. The special conditions as to the reduction of contributions and the cessation of title to medical benefit in the case of voluntary contributors whose income exceeds £250 a year, and the provisions relating to the penalties for arrears in the case of such contributors, do not appear to have given rise to undue administrative difficulties, and although one Society (Rational Association Friendly Society, App. IX, 25; Q. 6565

and 6603-6609) suggested that the title to medical benefit should be made general, the Joint Committee of Approved Societies, which speaks in the name of a considerable number of Societies, expressed their approval of the present provision in this respect (App. XIV, 2).

474. On the whole, we think that it is desirable to retain the class of voluntary contributor so as to provide effectively for those employed contributors who, on ceasing to be insurable, desire to continue their State Insurance. Not infrequently those who pass out of insurance, particularly if they do so in the earlier years of life, consider that they ought to be entitled to something in the nature of a surrender value on the ground that they have been compulsorily insured during a period when they might normally be expected to enjoy good health, and when, as may have happened, they have made little or no claim on the funds. The grant of a surrender value is not, however, entirely appropriate to a system of insurance against contingencies, as distinct from life assurance, where the event assured against is certain; and such a concession would, we consider, be very undesirable in a scheme of Health Insurance. But within the Scheme as it stands, it is possible to meet such hardship as would otherwise be entailed in passing out of insurance if provision is made whereby those affected who so desire, may continue as voluntary contributors. On the other hand, we do not think that there is any ground for recommending an extension of the class.

475. Having regard to the attitude of the medical profession to extension of contract practice, we think that on the whole it would be well to retain the existing arrangements relating to the £250 limit for medical benefit in the case of voluntary contributors.

SECTION B.— PAYMENT OF CONTRIBUTIONS.

476. We were informed that the arrangements for securing the due payment of contributions under the Act are on the whole quite satisfactory. We may quote the following question which was addressed to Sir Walter Kinnear, and his reply :— "Do you think that there is any considerable non-compliance with the statutory requirements as to the payment of contributions? "—" Our calculations lead us to think that on the whole we collect about 99 per cent. of the contributions which are due. We recognise that there is a certain degree of non-compliance amongst casually employed persons, and to a more limited extent amongst domestic servants." (Q. 213.)

477. On the other hand, we were informed that the Ministry considered that their powers for enforcing the payment of contributions could, with advantage, be strengthened. To indicate

the directions in which additional powers are thought to be needed, we cannot do better than quote two questions addressed to Sir Walter Kinnear, and his replies :—" Are you satisfied with the present powers of the Ministry for enforcing the provisions of the Act as to the payment of contributions, or do you think that they need strengthening in any respect? "—" There are one or two comparatively minor points upon which we think it would be to the advantage of insured persons and to the administration of the Act if we had some further powers. The time limit for taking criminal proceedings we suggest should be twelve months in the case of all offences specified under Section 96 of the Act. Section 97 allows a time limit of one year in the case of failure to pay contributions and in the case of trafficking in cards and used stamps, but proceedings for all other offences against the Act and Regulations are governed by the time limit of six months under the Summary Jurisdiction Acts, subject to the power of the Minister to extend the time by a certificate under Section 97 (1) (*b*). Many of these other offences are, however, closely linked up with the non-payment of contributions; for example, it often happens that prosecution for non-stamping is impracticable because the employer is believed to hold the relative card and prosecution for detention of the card is already barred by the six months' limit. In fact, we do not know of the offence until the six months' limit has expired. Other instances are the offences of fixing used stamps to a card, obstructing an inspector, failing to produce cards to an inspector, and making illegal deductions from wages. We are greatly hampered by the present time limit in the Act, and suggest that it should be made twelve months. There are one or two other smaller points. We suggest the period for which unpaid contributions can be recovered preferentially in bankruptcy or liquidation should be extended from four to twelve months. When the provision of four months was originally put into the Act we had a quarterly card, but now that we have a half-yearly card we think the period of twelve months would enable us to recover from the assets of a bankrupt unpaid contributions, and so help to keep the insured persons in benefit. There is another small point. We have had some cases recently of small limited companies which we have not been able to prosecute because of their being run by simply two or three directors, and we cannot prosecute for illegal deductions or for non-payment of contributions directors of companies. We think that, following the precedent of legislation set up in the Coal Mines Emergency Act, 1920, we should have power in the case of these small companies to conduct a prosecution against the directors where they were actively running the concern themselves, unless they could show that they could not reasonably be expected to have any knowledge of the non-compliance in question." (Q. 23,442.) " You think there is precedent for dealing in that way with

that particular kind of case? ''—'' It has been dealt with under the Coal Mines Emergency Act on the question of the illegal deduction of wages. There is one point we did get right under the Unemployment Insurance Scheme, and which we want badly in the Health Insurance Scheme. When our inspectors go round and visit employers to see if the cards are properly stamped, fraudulent statements are very often made. An employer may say, 'I have two men,' when in fact he may have six. Consequently, persons lose their benefit rights because the employer has been defrauding under the Act, and we suggest that the making of fraudulent statements in order to avoid payments under the Act should be made an offence under the Act in a similar manner as it is under the Unemployment Insurance Scheme.'' (Q. 23,443.)

478. We are prepared to accept the opinion of the Ministry as to the extent to which their present powers have proved in practice to be not altogether adequate, and we think that they should be given all reasonable powers which they think necessary for enforcing the provisions of the Act. We, therefore, recommend :—

(1) That the time limit for instituting proceedings for any of the offences specified in Section 96 (2) and (3) of the Act should be extended to twelve months.

(2) That Section 96 (1) of the Act should be amplified so as to render liable to prosecution any person who makes a fraudulent statement with a view to avoiding compliance with the Act.

(3) That the offences of trafficking in stamps should be made subject to the penalty of imprisonment as an alternative to a fine.

(4) That the preferential period for the recovery of unpaid contributions in the case of bankruptcy or companies in liquidation should be extended from four months to twelve months.

(5) That directors of companies who are actively engaged in the conduct of the company's business should be made personally liable for the non-payment of contributions due in respect of employees unless they can show that they could not reasonably be expected to have knowledge of the default.

479. A further suggestion was made to us (*National Association of Trade Union Approved Societies*, App. XCII, 72) that in order to avoid the hardship which falls upon insured persons through their employers failing to pay contributions at the proper time and subsequently becoming bankrupt before the contributions were paid, the contributions so lost should be made good out of insurance funds. We are, however, unable to recommend the adoption of this proposal. In the first place, we are not aware of any insurance funds which are available for such a purpose, and even if funds were available, we doubt whether the course suggested would be desirable, as it might encourage laxity in the payment of contributions at the proper time. Moreover, it might prove embarrassing as a precedent if cited in support of a similar demand in cases not involving bankruptcy, e.g., where an employer had disappeared.

SECTION C.—ADMINISTRATION OF THE CASH BENEFITS.

480. We have received very little evidence in criticism of the provisions of the Act with regard to the administration of sickness and disablement benefits and the conditions to be complied with by insured persons in order to obtain those benefits. There are, however, a few points on which suggestions have been made for minor modifications, and these we will now proceed to examine.

Late Notice of Illness.

481. Our attention was directed to the provisions of the Act with regard to insured persons who do not give prompt notice of an illness for which they desire to claim benefit. Prior to 1918 title to sickness benefit was not made conditional upon the giving of notice of illness within any prescribed period after the commencement of incapacity, and it was found that many claims for benefit were received from members after their recovery, when it was no longer possible to supervise the claims. Provision was therefore included in Section 12(2) of the 1918 Act (now Section 13(4) of the 1924 Act) whereby an insured person claiming sickness or disablement benefit is required to furnish notice of incapacity to his society within three days of the commencement of his illness, and if he does not do so, benefit does not in normal circumstances commence until the day following the date of notice. The proviso to the subsection, however, exempts from the operation of this clause those persons who are able to satisfy the Society that they were '' not reasonably able '' to furnish notice within the prescribed time.

482. We are informed that the terms of the proviso to which we have referred have been found in the light of experience to be not altogether satisfactory (*Kinnear*, Q. 23,495). Some Societies place a strict interpretation upon the phrase '' not reasonably able,'' and we understand that confirmation of the view taken by those Societies is afforded by the findings of a referee appointed by the Minister under Section 90 of the 1924 Act in a case recently referred to him on appeal, in which it was decided that the words of the proviso must be construed as implying physical inability. Many cases arise, however, where in strictness it may not be possible to contend that the person concerned is physically unable to furnish notice of illness, but yet he

cannot be said to be "reasonably able" to do so if all the circumstances of his illness are taken into consideration. It has accordingly been represented to us that the proviso should be amended so that members will not be penalised in cases of this type by reason of delay in furnishing notice of illness.

483. We are impressed by the considerations which have been submitted to us in this respect, and recommend that the proviso to sub-section (4) of Section 13 of the Act should be amended in the following sense: "Provided that, if the Society or Committee administering the benefit consider, or if in the case of a dispute it is decided in manner provided by this Act, that having regard to the circumstances of his incapacity, the insured person had reasonable excuse for his failure to give notice . . . &c."

Duration of Sickness Benefit and Linking-up Illnesses.

484. It is provided by Section 13 (5) of the Act that in calculating the maximum period of 26 weeks for which sickness benefit is payable, any illness which begins within twelve months of the termination of a previous illness is to be treated as a continuation of that illness. Further the linking-up provisions have regard to any illness in respect of which the insured person could have claimed benefit, irrespective of whether benefit was in fact claimed. This provision, we are informed, may operate harshly in the case of a person who is ill for a short period in each year during a number of consecutive years (*Kinnear*, Q. 345-349; Manchester Unity of Oddfellows, Q. 6079-6081), and we understand that certain Societies have habitually made detailed inquiries of employers with a view to determining whether a member claiming sickness benefit has had an odd day or two of incapacity during the preceding twelve months which would justify them in applying the provision in question (*Kinnear*, Q. 23,491).

485. A suggestion was made to us by the Ministry of Health as to an amendment of Section 13(5) of the Act, and we quote the following from the evidence of Sir Walter Kinnear: "This position operates harshly in the case of a person who is ill for a short period in each year, and the hardship is one which increases as the person grows older. It does not appear to be equitable that a week's sickness at some previous date should make the possible difference between 26 weeks of sickness benefit and 26 weeks of disablement benefit for a subsequent incapacity, and it seems desirable to avoid any inducement to an insured person to delay claiming benefit in order to secure a title to sickness instead of disablement benefit . . . . . It is suggested that Section 13(5) might be amended so as to provide that for linking-up purposes any period of 12 months during which the insured person has not received benefit in respect of more than six days of incapacity should be regarded as a year free from incapacity. If the Commission could see their way to recommend something like that, I think it would be a great boon to persons, say, between 50 and 60 years of age who normally anticipate being laid up for a few days in each year." (Q. 23,481-23,482.)

486. We are convinced that the Section as at present worded is severe in operation, especially in the case of the person who suffers from no more than the average amount of sickness each year.

487. We therefore recommend that Section 13 (5) of the Act should be amended so as to provide that in determining whether an illness is to be treated as a continuation of a former illness, no account shall be taken of any short periods of illness amounting in the aggregate to not more than six days in the twelve months immediately preceding the commencement of the later illness. This recommendation probably involves no increase of cost in the aggregate since the claim in respect of the illness next following the year in which there have been no more than six days of benefit will be subject to a three days' waiting period—a condition which does not apply at present.

Inmates of Institutions.

488. It is provided in Section 17 of the Act that where an insured person having no dependants is during illness an inmate of a workhouse, hospital, asylum or similar institution supported out of public funds, or by a charity or voluntary subscriptions, no payment of sickness or disablement benefit is to be made to him while he is in the institution, but that the money may be applied in various ways, and that any balance not so applied is to be payable to him on leaving the institution, or to his legal representatives in the event of his death in the institution. We have been informed that the balances so payable have in many cases accumulated to very considerable sums. As an illustration, we may refer to the table submitted by the Hearts of Oak Benefit Society. (App. IV, 161.)

489. Several witnesses have suggested to us that some limit should be placed on the amount of accumulated money which should be payable to an insured person or to his legal representatives in such cases. The Hearts of Oak Benefit Society suggest that the maximum accumulation should be £50, and that any further balance should remain in the Society's Benefit Fund (App. IV, 158-173; Q. 3250-3258, 3337-3340, 3435-3437). The Manchester Unity of Oddfellows suggest that the maximum should be the equivalent of twelve months' benefit, approximately £29 (App. VII, 70-72; Q. 5902). The Group of Catholic Approved Societies do not go so far, but suggest that provision should be made for the disposal on the death of the insured person, of the

accrued benefit " which under normal circumstances goes to people who have never done anything for the sick person and who, by some means or other, get the nomination and get £30, £40, £50, or £60 " (Q. 8604-8605). The United Women's Insurance Society suggest that the benefit payable on death to any person other than a near relative should be limited either to one year's cash benefit or should be in the nature of a refund of funeral expenses, and the like (Q. 10,194, 10,222-10,231). The National Amalgamated Approved Society suggest that only 25 per cent. of the benefit accrued at death should be paid to the next-of-kin who defrayed the cost of burial, and that the balance should go to the Institution (Q. 10,587-10,593). That Society hold at the moment £42,000 of accrued benefit of this type.

490. The Grand United Order of Oddfellows suggest a reversion to the position as it existed prior to 1918, under which the accumulated benefit remained in the funds of the Societies. This Society also submits a table giving particulars of 15 cases in which benefits varying in amount from £51 to £177 had accrued due to members of the Society on the 31st December, 1924 (App. XCV, 14-20; Q. 22,458-22,477). Sir Walter Kinnear expressed the view that " there is much force in the contention of the witnesses as to the payment of large accumulated sums in respect of insured persons who have been in institutions. No inducement should be given to a Society to avoid applying the amount of benefit in the ways provided by the Section of the Act, that is, payment to the insured person's dependants, for payment of expenses for which he is liable otherwise than to the institution, or in some circumstances, payment to the institution; and we are inclined to think that if after reasonable payments have been made in these ways there remains a balance exceeding, say, £50 to be paid on the death of the member or on his discharge from the institution, the amount in excess of that £50 should be withheld and paid by the Society to the Central Fund. It should not be left in the funds of the Society." (Q. 23,749.)

491. We feel that there is a strong argument on general grounds against paying large sums to the insured person on exit from such institutions under these conditions, or to the legal representatives on death. It should be remembered that in the circumstances postulated the insured person will have been fully maintained in the institution and that, therefore, compared with the person who has been drawing benefit at his own home, he will be in an equally favourable position on leaving the institution quite apart from these accumulations. On the other hand, we think there is some argument for payment of such sum as will meet the funeral expenses and clear up the affairs of a deceased insured person who has no dependants: or in the case of a person who leaves the institution, will be sufficient to

tide over a period of transition. We think that the sum provided for this purpose should not exceed £50 and that the balance should be paid over at yearly or half-yearly intervals by the Society to the Central Fund. We do not think that there is any argument for allowing this balance to accrue to the Ber efit Fund of the Society as has been suggested by certain witnesses.

492. Suggestions have been made by witnesses appearing before us on behalf of Poor Law Authorities that the Act should be so amended as to empower Approved Societies to pay to Boards of Guardians the Sickness Benefit of members who are inmates of Poor Law institutions and have no dependants. (Association of Parish Councils of Scotland, App. LXXX, Q. 20,535-20,636; Association of Poor Law Unions of England and Wales, App. XC, 29-42; Q. 21,703-21,714.) It is urged that in a considerable number of cases of this kind the insured person obtains his discharge from the institution after a considerable sum has accrued to his credit as benefit, that the accrued benefit is paid to him in a lump sum by his Society and that, having quickly dissipated the benefit, he finds his way back to the institution. We are informed that the specific provision which debars the payment to the Poor Law Authorities of any part of the benefit arising from the insurance of an inmate of a workhouse, Poor Law infirmary, asylum or other similar institution maintained out of public funds, was included in the 1918 Act following a recommendation of the Departmental Committee on Approved Society Finance and Administration.

493. We see no reason for departing from the principle that benefits derived from the compulsory contributions of employers and employed should not be applied towards the relief of local rates.

494. It has been suggested, however, that the cases to which we have referred would, to a large extent, be met if the discretionary power now entrusted to Societies enabling them to make payments of accrued benefit either in a lump sum or in instalments after the insured person's discharge from an institution were replaced by a compulsory provision that in the case of persons without dependants, any benefit accrued in respect of their insurance during a period when they have been inmates of the institution should in all cases be paid to them on their discharge in weekly instalments. (*Kinnear*, Q. 23,749.)

495. We agree that such a provision would undoubtedly go a long way towards meeting the particular criticism of the Poor Law Authorities to which reference is made above. We accordingly recommend that Section 17 (3) of the Act should be amended so as to provide that where an insured person without dependants has been an inmate of an institution, any balance of the accrued benefit payable to him on his discharge shall in all

cases be paid in instalments at a weekly rate equal to the rate of sickness benefit normally payable by the Society.

496. We also think that the attention of Societies should be directed to the provisions of Section 17 (2) (*b*) of the Act under which they are empowered to make payments towards defraying expenses of members during their stay in an institution, and that Societies should be encouraged to make fuller use of that power by meeting the cost of small additional comforts for their members in such circumstances.

Recovery of Benefit Overpaid.

497. We have considered the position as to the recovery from an insured person of any sum received by him from his Society as a payment in respect of benefit to which he was not entitled, and we examined Sir Walter Kinnear on the subject (*Kinnear*, Q. 23,825). We find that the Act makes no provision for recovery by the Society except in the following three types of cases :

(1) Benefit paid by way of advance pending the settlement of a claim for compensation (Section 16 (4)).

(2) Benefit paid by way of advance pending the settlement of a claim for a 100 per cent. disablement pension (Section 60 (2)).

(3) Payment of ordinary benefit to a married woman who was entitled to the special benefits of Class K only (*see* para. 515), but who had failed to notify her Society of her marriage (Section 56 (9)).

498. On the other hand, it is provided by Section 21 of the Act that every assignment of any of the benefits of the Act shall be void.

499. In cases of overpayment other than those mentioned above, the present position is, therefore, that the Society stands to the member in the ordinary position of creditor to debtor, and is not entitled to withhold from the member any benefit which may subsequently become due to him in order to recoup itself for the previous overpayment.

500. We are informed that there is ample evidence before the Department to show that notwithstanding the last-named provision, Societies in practice frequently recover overpayments by withholding benefit subsequently payable, and moreover, often do so without the member's consent. Recovery of overpayments by this means often involves hardship to the member, as he is called upon to repay a debt when he can least afford to do so. There is good reason to believe that Societies adopt this method of recovery because the alternative methods are either ineffective or (as in the case of legal process) involve a maximum trouble and embarrassment to all concerned.

501. We think that this problem is undoubtedly one of difficulty from the point of view of the administration of Societies, and we are convinced that there is a very good case for giving Societies a legal remedy which will, at the same time, protect an insured person from the hardship which would be involved in a complete stoppage of benefit. A time limit should, however, in our view, be imposed.

502. We therefore recommend that provision should be made whereby Societies will be empowered (in cases not falling within the three classes above mentioned) to recover, without prejudice to any existing right of recovery, overpayments of benefit by withholding weekly from sickness or disablement benefit due in respect of subsequent periods of incapacity occurring within 12 months of the date on which the overpayment was brought to the notice of the member, an amount not exceeding one-third of any sum payable in respect of sickness or disablement benefit.

Benefit for Tuberculous Insured Persons in Part-Time Employment.

503. To one special point brought forward in the evidence relating to the question of tuberculosis we would refer in connexion with the administration of sickness benefit. It has been urged upon us by the Cambridgeshire Tuberculosis After-Care Association (App. LXXXIII, 2-14), the London County Council (App. LXXXIV, 34-35), and the Joint Tuberculosis Council (App. XCIII, 12), that a reduced sickness benefit should be allowed during such part-time employment of tuberculous persons as they take up under medical advice. It appears that such part-time employment is often a very beneficial element in the measures for curing or alleviating this disease, provided that the work is carried on under proper conditions and subject to medical supervision. We are not unsympathetic to this proposal on general grounds, and we are glad to know that in fact the Ministry of Health approves some such relaxation of the necessarily strict rules governing the payment of sickness benefit in the case of persons in Tuberculosis Colonies such as Papworth. But we see considerable difficulties in any attempt to extend the arrangement to persons in ordinary employment. It would be difficult to secure the proper medical supervision and the appropriate conditions of work in business concerns which necessarily must organise their arrangements on a commercial basis. Employers could not be expected to conform to a number of restrictions directed primarily towards the care of a small and specially affected proportion of their workers. We may add that, though provision for the payment of a disablement allowance to members not totally incapable of work is included among the additional benefits of the Act, this benefit has been found administratively impracticable and has never been adopted

(*Kinnear*, Q. 23,689-690, 23,781). We may also point out that there are other illnesses, such as neurasthenia, in respect of which an almost equally strong case could be made for a similar concession. Any modification of the kind suggested would add seriously to the difficulties attending medical certification and the determination of claims for benefit. We accordingly do not think that this suggestion for the special case of the tuberculous persons can be recommended.

Medical Certification.

504. It is indispensable to the proper administration of sickness and disablement benefits that the incapacity of the insured person who is claiming benefit should be medically certified at frequent intervals, and the provision of certificates is accordingly one of the duties undertaken by the insurance practitioners under their contracts with the Insurance Committees. Under the present arrangements a certificate is supplied at the outset of incapacity, a second, if necessary, after not more than seven days, and thereafter once weekly; but in cases of prolonged incapacity, where the doctor does not regard it as necessary to see the patient more frequently than once in four weeks, it is open to him, with the concurrence of the Society, to give certificates separated by this interval.

505. It has been submitted to us in the evidence of the British Medical Association that these periods should be extended at the option of the practitioner to 14 days in the case of sickness benefit and 42 days (or in rural areas three months) in the case of disablement benefit (App. XLVII, 53). In examination, it appeared that proposals to this effect had been made by the profession to the Approved Societies but had not been accepted. We have not ourselves thought it necessary to recall witnesses from the Societies to give evidence upon the point, in view of the facts which were brought out in the investigations of the Actuarial Committee. These facts, had they been available to the profession when its proposals were being formulated must, we think, have raised in the minds of the medical witnesses the same doubts as to the wisdom of this proposal as they have in ours. The First Report of the Actuarial Committee shows, as we have elsewhere explained, a constant and serious rise in the sickness claims of women and in the disablement claims of both sexes; and it is pointed out, moreover, in the Appendix to that Report (para. 11), that of those who receive disablement benefit in the course of a year, a large proportion rising, at the ages under 40, to 40-50 per cent., "go off the funds" during the year, thus showing that those in receipt of this benefit at any time are, as a class, very far from being a body of permanently sick persons. In these circumstances the need seems to be for more, rather than less, supervision, and it is impossible for us

to endorse a proposal which would be resisted by the Societies, and probably with reason, as being likely to increase whatever difficulties are now encountered in the oversight of claims. A system of fortnightly certificates in connection with sickness claims which, as the figures given by the Actuarial Committee show, do not last on the average for as long as five weeks in the case of men or more than six weeks in the case of women, would give the insured person such a wide discretion, unfettered by medical control, as to the day of "declaring off," as to create the risk of the period of claim being seriously prolonged in a certain proportion of cases with corresponding effect on the cost of the benefit. We cannot doubt that this would be the result in the case of disablement benefit, and in these circumstances we feel that it is impossible for us to endorse the proposal made to us by the British Medical Association.

Re-insurance of Maternity Benefit.

506. Section 25 of the Act enables the Minister to make provision for the re-insurance with him of the liabilities of all Societies in respect of Maternity Benefit. Up to the present, this provision has not been put into operation. Suggestions were made to us by witnesses from various Approved Societies for giving effect to the Section, and in support of the case for re-insurance of the risk it was stated that the maternity benefit experience is the highest in the case of those Societies with the least favourable sickness experience. Thus, the National Association of Trade Union Approved Societies state that "the incidence of risk in respect of maternity benefit varies considerably as between Society and Society. There is also considerable variation in the cost to Societies of Section 14 (4) and (5) of the Act, which provides for a second maternity benefit being payable in certain cases from the woman's insurance." The Association submit "that the Minister should take the powers conferred upon him by Section 25 of the Act for the reinsurance of maternity benefit, thus spreading the risks equitably over the whole insured population." (App. XCII, 125-126; Q. 22,057.) Similar suggestions were made to us by the representatives of other Societies.

507. We also examined a representative of the Ministry of Health on the subject. (*Kinnear*, Q. 23,480.) We are informed that this question was examined in 1912 by the Actuarial Advisory Committee set up when the Act came into force, who advised that re-insurance was not to be recommended. The Committee indicated that deviations from normal experience would be either—

(1) temporary fluctuations due to limitations of number of members of particular Societies; or

(2) permanent deviations due to the character and circumstances of sections of the population or to geographical differences.

As to (1) the Committee thought that there was no serious risk of a Society having excessive claims for several years in succession; and as to (2), the problem did not appear to them, after examination of the statistical data, to be of such magnitude as to call for special treatment.

508. In accordance, however, with their instructions they prepared a scheme for re-insurance. This scheme brought out the complications inherent in the proposition and demonstrated the heavy labour which would be involved in applying any sound arrangement of the kind.

509. On the first (1918) valuation the Government Actuary reported a saving in maternity benefit payments on men's insurance of 20 per cent. of the expected payments, and on women's insurance of 36 per cent. One factor was the reduced birth rate during the war; but an examination of the experience since 1918 suggests that the maternity payments will, in general, continue to be within the financial provision for the benefit, and that any excess in particular Societies is not of sufficient importance to justify the introduction of a complicated system of re-insurance.

510. We are of the opinion that reinsurance in the strict sense, i.e., by distributing the charge with reference to the actuarial value of the risk undertaken by each individual Society in respect of the benefit is not practicable. We are advised, moreover, that in the calculation of the contribution and reserve values as well as in the valuations, account is taken of the varied incidence of the cost of maternity benefit with regard to age, sex, and in the case of women, marital condition, and that a mere pooling of the cost at a uniform rate per head of the membership would be inconsistent with these conditions, while it would certainly be inequitable.

511. We, therefore, recommend that no steps should be taken to put into operation the provisions of Section 25 of the Act, and that the section should be repealed.

SECTION D.—SPECIAL CLASSES OF INSURED PERSONS.

Married Women.

512. The question of the provision to be made with regard to the insurance of women who give up insurable employment at or about the time of their marriage has from the first been a matter of great difficulty. Under Section 44 of the Act of 1911 insured women who married had, in the first place, to satisfy their Approved Societies as to whether they had definitely given up employment or not. No precise test of cessation of employment was laid down in the Act and in practice it followed that Societies were to a large extent compelled to depend upon the woman's

statement as to whether, though absent from work at the time, it was her intention to resume employment in the future. The woman who satisfied her Society that she had not definitely given up employment was allowed to retain the title to all benefits under her existing insurance, while the woman who was treated as having given up employment was allowed to exercise an option between taking up a new voluntary insurance for reduced benefits at a low rate of contribution, or drawing in times of illness upon the very limited amount of her own transfer value. These provisions were found thoroughly unsatisfactory in practice, mainly on the ground that the action to be taken by the Society depended upon a statement of the woman's intention, which was in the nature of things impossible of verification, and also by reason of a decision of the Court of Appeal (Davidson *v.* New Tabernacle (Old Street Congregational) Approved Society [1916], 2 K.B. 80), which appeared to place upon the section an interpretation which would have proved most embarrassing in administration.

513. The position was thoroughly examined in 1916 by the Departmental Committee on Approved Society Finance and Administration, and the Report of that Committee contained recommendations designed to clarify the position and to overcome the administrative difficulties to which the provisions of the Act of 1911 had given rise. These recommendations were embodied in the Bill of 1918, but in the course of the passage of the Bill through Parliament they became the subject of some criticism which was mainly directed against the proposal that one of the options to be allowed to insured women who cease work on marriage should be the right to receive a lump sum payment by way of a marriage benefit or bonus. It was urged that this was not a proper use to which to put funds collected for insurance purposes under a system of compulsory contributions. As a result of this criticism the Bill was amended and the Scheme which is now in force and is contained in Section 56 of the Act of 1924, was substituted.

514. The present provisions of the Act relating to married women differentiate between those insured women who continue in employment after marriage and those who are regarded as having then ceased to be employed, and a definite test, easy of application, is provided to determine whether a woman is to be treated as having ceased employment or not. A woman who at the time of her marriage, or within one year thereafter, has had a period of eight consecutive weeks' absence from work otherwise than by reason of illness is to be treated as having ceased to be employed, and from the end of those eight weeks a special limited form of insurance (Class K) is provided for her. On the other hand, a woman who has not had eight weeks of such absence from work continues in insurance as an employed con-

tributor. If a woman remains at work for a full year from the date of her marriage without eight consecutive weeks' absence, she becomes permanently exempt from transfer to the special class of insurance and on subsequently ceasing work at any time she is subject to the ordinary provisions of the Act and is entitled to a free year's insurance from the date of ceasing employment as in the case of other insured persons. It will be observed that under this procedure the woman's transfer to the special class of insurance depends on easily ascertainable facts, and that the consideration of " intention," so unsatisfactory in practice, is eliminated.

515. The special benefits provided under the Act for women who cease work on or about the time of marriage are as follows :—

(1) Sickness or disablement benefit at the rate of 7*s.* 6*d.* a week for a maximum period of six weeks during a period of one year from the " date of unemployment " (i.e., the end of the eight consecutive weeks of unemployment).

(2) Medical benefit for a year from the end of the half-year in which the " date of unemployment " falls.

(3) A single maternity benefit of 40*s.* on the first confinement after the " date of unemployment," provided that such confinement occurs within two years after the date of marriage.

(4) Any additional benefits provided under the scheme made by the Society of which the woman is a member, so far as these are applicable to her case.

516. We have received no criticism of the nature of the benefits under this special scheme of insurance, but we have had criticism on other grounds from several sources. For instance, the National Conference of Industrial Assurance Approved Societies (App. VI, 15-16; Q. 4999-5059) and the Prudential Approved Societies (App XXI, 6; Q. 9677-9683) stated that the present provisions were complicated and difficult to administer, and suggested that every insured woman who marries should be allowed to exercise an option between the two following alternatives :—

(1) To receive a cash payment, in which case her insurance would terminate whether or not she remained in employment; or

(2) To be treated in the same way as any other person who ceases employment, i.e., to be given a continued title to all cash benefits for 12 months after ceasing work and to medical benefit for a further period.

517. Other witnesses, e.g., the Manchester Unity of Oddfellows (App. VII, 63; Q. 5843-5845) and the Rational Association Friendly Society (App. IX, 24; Q. 6513-6515, 6527-6532, 6555-6558) also criticised the scheme on the ground of its complexity and suggested that the normal provisions of the Act for a free year of insurance should be applied. The latter of these Societies also submitted interesting tables (App. IX) showing the percentage of women who fell under Class K on marriage and the relative cost of the two schemes. The National Association of Trade Union Approved Societies (App. XCII, 123; Q. 22,057) also suggested the application of the " free year of insurance " but expressed the view that the woman's title to maternity benefit should continue for two years after marriage. Again, certain witnesses, including the Ancient Order of Foresters (App. V, 54-56; Q. 4268, 4278-4284), the Joint Committee of Approved Societies (App. XIV, 10; Q. 8237-8241) and the Scottish Co-operative Friendly Society (App. LXXVIII, 4; Q. 20,174-20,213) suggested that a marriage bonus should be given to women on marriage and that the title to all benefits should then cease. The present arrangements were also criticised on the ground that they provide little incentive to insured women to send prompt notification to their Societies of the fact of their marriage, with the result that benefits are often paid in the first instance at incorrect rates, necessitating subsequent adjustments (*Kinnear*, Q. 229-232; *Manchester Unity of Oddfellows*, Q. 5843; *Order of the Sons of Temperance*, Q. 21,433).

518. Finally, it has been represented to us by several witnesses, that the difficulties in administering the present provisions are rendered greater at the present time by reason of the necessity for applying to each case the provisions of the Prolongation of Insurance Act (e.g., *Hearts of Oak Benefit Society* (App. IV, 124-126; Q. 3134-3136), *Ancient Order of Foresters* (Q. 4349-4351), *Independent Order of Rechabites* (App. VIII, 9-11), *National Conference of Industrial Assurance Approved Societies* (App. VI, 16)). Under this Act the definite test of eight consecutive weeks' absence from work for determining whether a woman is to be treated as having ceased employment no longer applies, and in every case where there has been this period of absence from work, a Society before transferring a woman to the special class of insurance has to ascertain whether during the period she has been genuinely unemployed and available for work, or not. In the former case she is not transferred to the special class but is allowed to remain in insurance as an ordinary employed contributor. This, we are told, removes the main administrative advantage of the provisions of the Act of 1918 and reintroduces to some extent the necessity for ascertaining intention, which was the main objection to the relative provisions of the 1911 Act.

519. The objections, from an administrative point of view, to the present provisions relating to married women, so far as these objections are based on their alleged complexity, appear to be

more particularly entertained by the smaller Societies. In the larger Societies the necessity for applying those provisions arises almost daily in the ordinary routine of business, and the officials of those Societies who deal with such cases have become so familiar with the work that it does not generally present any serious difficulties to them and, as a result, mistakes are comparatively rare. In the smaller Societies, however, where the transfer to Class K is not a matter of every-day occurrence, it is probable that the administration of the present provisions does give rise to difficulty and that mistakes may from time to time occur.

520. We now proceed to examine the two main proposals which have been placed before us for varying the present provisions of the Act with regard to the insured woman who marries. These are a marriage bonus and a free year's insurance.

521. The chief arguments advanced in support of the proposal to provide a bonus to all insured women who marry are, first, that it would be a popular benefit in a large proportion of cases and might be expected to lead to prompt notification of marriage, a consequence eminently desirable in the interests of proper administration; and, secondly, that it would be very convenient from the point of view of simplicity of administration if the woman's previous insurance could be completely brought to an end by such a lump sum payment. We do not consider that the arguments in support of this proposal are sufficiently strong to justify a reversal of the decision of Parliament on the subject to which we have referred above, and we are of opinion that such an application of Health Insurance funds would be contrary to the general intention of the Act and would be out of place in a national scheme of Health Insurance. The proposal would, moreover, involve fresh waiting periods for benefits in the case of women who remain continuously in employment after marriage. We do not, therefore, recommend the adoption of this proposal.

522. The proposal that insured women who cease work at or about the time of marriage should be treated in exactly the same way as other insured persons who cease insurable employment is attractive from the point of view of simplicity of administration. It would free Societies from the risk of making incorrect payments through the member's failure to notify her marriage; and the ordinary procedure, with which all Societies are familiar and which can be followed automatically on the basis of the surrender or non-surrender of stamped cards, would be followed. For the reasons which we set out below, however, we do not consider that this plan is feasible and we are unable to recommend its adoption. Marriage marks not only a change in the economic status of the woman who marries, but also a change in her liability to the risks against which she is insured; and for

these reasons we are satisfied that some special provision is essential to meet the peculiar circumstances of insured women on marriage. On the grounds indicated it would, in our opinion, be impossible to extend to insured women who cease employment at the time of marriage the ordinary provisions as to the granting of a free year's insurance. It must be borne in mind that the so-called "free year" is not a fixed period of twelve months, but is an elastic period capable of indefinite extension. In the first place, if any period of illness occurs during the first twelve months of free insurance, the period of insurance is extended by a period equal in length to that of the illness, and in the event of prolonged or permanent incapacity occurring the ordinary insured person would continue entitled to benefit long after the termination of the first twelve months of free insurance. It would be an altogether impossible financial proposition to allow of such indefinite extension in the case of women who had left work on marriage, and were consequently not suffering loss of wages during the period of incapacity. A point of much importance from the point of view of the insured woman herself is, however, that the great majority of insured women leave industrial employment on their marriage, and the limitation of their subsequent title to benefit to a period of twelve months would exclude a large proportion of them from drawing maternity benefit on the occasion of their first confinement. We have had ample evidence that this benefit—which the present system is designed to secure—is greatly valued, and we are not disposed to recommend an alteration under which it would be jeopardized.

523. But, while we cannot recommend that the ordinary provisions of the Act should be applied without any modification to insured women who cease employment on marriage, we recognise the advantages of making the special provision which is essential in such cases conform to the normal provision except where a departure from the normal is required to meet the circumstances of the case. In particular, we do not think that it is advisable to retain a special reduced rate of Sickness Benefit, and we recommend that this benefit should be paid at the woman's ordinary rates. We are advised by the Actuarial Committee that it would be possible, within the available financial provision, to increase the benefit to this extent provided that the present maximum period of six weeks for Sickness Benefit is retained. We are satisfied that insured women who continue in employment after marriage should, as at present, remain in insurance as ordinary employed contributors. We also consider that the present test of cessation of employment, viz.: eight consecutive weeks of voluntary abstention from work under an employer, is satisfactory and should be retained. Any weeks during which the woman is away from work by reason of sickness should not be counted towards these eight weeks, and a similar concession should be made in respect of weeks of genuine in-

ability to obtain work subject to arrangements being made for the certification of unemployment by Employment Exchanges or its establishment otherwise in accordance with our recommendation in paragraph 655.

524. At the end of eight consecutive weeks of voluntary abstention from employment a woman should be transferred to a special class of insurance on the lines of the present arrangement and would become entitled to special benefits for a limited period. The special benefits which we recommend are :—

(1) Sickness Benefit subject to the usual three days' waiting period at the ordinary rate for a maximum period of six weeks during a fixed period of twelve months from the date of the transfer to the special class; this benefit should not be liable to be linked up with previous sickness, thus entailing a liability of reduction to the rate of disablement benefit.

(2) A single Maternity Benefit at the ordinary rate on the first confinement within two years after the date of marriage.

(3) Medical Benefit up to the 30th June or 31st December next following the anniversary of the date of transfer to the special class.

(4) Any additional benefits provided under the Scheme of the Society of which the woman is a member,

525. We also recommend that the ordinary penalties for arrears should be applied, with the exception that Maternity Benefit should in all cases be paid in full, irrespective of arrears. We recommend the retention of the present provision that a woman who returns to employment after having been transferred to the special class should be treated as a new entrant, and that pending her qualification for benefits in respect of her new insurance she should continue to be entitled to the benefits of the special class so far as her title had not already been exhausted.

Exempt Persons.

526. The statutory grounds on which a person employed within the meaning of the Act is entitled to claim exemption are—

(1) the receipt of a pension or private income of at least £26 a year;

(2) dependence for his livelihood on another person;

(3) dependence on another occupation which is not insurable;

(4) the intermittent nature of his employment.

527. The number of exempt persons is small in relation to the insured population, amounting in England to approximately 33,600, of whom 24,700 have claimed on the ground of pension

or private income; 3,900 on the ground of dependence on another person; 300 on account of dependence on another occupation; 4,600 under the temporary provisions of the Act of 1919, and less than 100 on the score of intermittent employment. It will be seen, therefore, that the bulk of the cases are those in which the claim is made on the ground of pension or private income of £26 a year or more.

528. Where a certificate of exemption is granted, it in no way operates to relieve the employer of his liability to pay what would have been his appropriate share of the contribution had the employed person not received exemption. Contributions are thus paid in respect of exempt persons, but by the employer only. In respect of these contributions the exempt person becomes entitled to receive Medical Benefit, and we understand that the majority take advantage of this benefit.

529. Three points arise for consideration—

(1) Whether the class should be abolished altogether, so that these persons would fall into the same category as ordinary insured persons.

(2) Whether the requirement to pay the employer's share of the contribution should be abolished, with the effect of placing exempt persons in the same position as those of the excepted classes.

(3) Whether, continuing the present system, the arrangements under the 1911 Act, under which no benefit at all was given to these persons, should be reverted to, and the contributions collected in respect of them otherwise applied.

530. The Hearts of Oak Benefit Society suggest the retention of the class and the withdrawal of Medical Benefit, the contributions payable in respect of exempt persons being applied towards the cost of Medical Benefit for the dependants of insured persons (App. IV, 20-24; Q. 2571-2575). The Manchester Unity of Oddfellows suggest the amendment of Section 2 (1) (*a*) of the Act, which gives a title to exemption to persons in receipt of a pension or private income of £26 or more, but express the opinion that if the class is retained there would be some justification for considering the withdrawal of the right to medical benefit. (App. VII, 73-74; Q. 5903-5905). The National Association of Trade Union Approved Societies suggest the repeal of Section 2 (1) (*a*) of the Act (App. XCII, 75; Q. 21,857 and 21,914). The Scottish Board of Health think that there is no justification for this special class, that exempt persons have little claim for consideration, but that Medical Benefit is valued by them (*Leishman*, Q. 1554-1563). The view of the Ministry of Health is set out in the replies of Sir Walter Kinnear

to Questions 23,648-23,650 and 23,666-23,681, from which we quote the following :—

> " Although exempt persons are a small class and require special administrative arrangements, I think the abolition of the class would hardly be justifiable. Exemption is useful for many persons who, although employed within the meaning of the Act, are not regularly employed, or are already provided for in case of sickness, and it thus provides a certain elasticity in a compulsory scheme. The obligation of employers to contribute for such persons should also be maintained. Although in practice there might not be much risk of discrimination in favour of employing exempt persons if no contributions were payable, there might be a tendency in some cases in this direction, and it is a sound principle that the employer should have to pay his quota to the funds according to the labour which he employs, without regard to the individual circumstances of the employees. . . . I am inclined to think that as these persons have been entitled to medical benefit for some years, and the statistics go to show that the great majority of them do take advantage of the medical benefit which is provided for them, to deprive these persons of the benefit which they have enjoyed for so many years would be rather a retrogade step, and, on the whole, I think employers would agree that, as they are required to pay contributions, it is only right that those contributions should be applied in the interests of the health of their employees. . . . "

531. The Federation Committee of the English, Scottish and Welsh Associations of Insurance Committees (App. XXXVI, 170-173) and the British Medical Association (App. XLVII, 15 (*b*); Q. 14,891-14,893 and 14,923) think that the right to medical benefit should be withdrawn; while the Scottish Association of Insurance Committees (App. XXXVII, 76 and 93) suggest that the contributions paid in respect of exempt persons should be paid to the General Purposes Funds of Insurance Committees. The Standing Committee of Scottish Insured Women urge the abolition of the class, and suggest that if it is retained the title to medical benefit should be withdrawn and the contributions paid into the Central Fund for the benefit of the members of all Societies (App. XLVI, 12; Q. 14,530-14,531).

532. After full consideration of the subject we are of opinion that the class should be retained with the present arrangements. It provides in many cases a useful niche for that class of persons who will probably be subject to compulsory insurance only for a short period and who do not in that period desire to become members of Approved Societies. These persons are not in need of the cash benefits; but the medical benefit gives them something which is valuable and which they appear to appreciate.

We have no indication that employers have objected to the arrangement under which they pay the contribution, and although we do not think there is very much substance in the argument that an employer would give preference to persons with private incomes if he had not to pay a contribution, the system provides a useful answer to such a criticism. We do not think that exempt persons should be deprived of medical benefit which they have enjoyed for 11 years. To do so would be deliberately to go back on the provisions of the 1913 Act, and we share the view of the Ministry of Health that any removal of medical benefit from those who have enjoyed it would be a retrograde step.

533. We suggest one small amendment in the system. At present, where the total income of an exempt person, from all sources, exceeds £160 a year, he is required to make his own arrangements for receiving medical treatment and attendance. This was the income limit in the 1913 Act, and it was not raised in 1918 to meet the depreciation in the purchasing power of money when all the other figures were raised by, approximately, 50 per cent. We understand that this was due to the feeling of the medical profession at the time that there should be as little extension of contract practice as possible. We think, however, that in view of the limits otherwise provided in the system, this limit should now be raised to £250 per annum.

Men Serving in the Forces of the Crown.

534. Men serving in the Armed Forces of the Crown are required to be insured under the National Health Insurance Act, but, inasmuch as their service pay continues during illness and full medical attendance is provided by the Service Authorities, the only insurance benefit to which they are entitled is maternity benefit. The contribution payable is $3\frac{1}{2}d.$ a week, the whole of which is paid by the Service Departments. This contribution, in addition to covering the cost of maternity benefit, provides the funds required to enable the men on discharge from the Forces to continue in full insurance as civilians. No contribution cards are used during service, but the contributions are paid in bulk by the Service Departments to the National Health Insurance Fund and are credited to the appropriate Approved Societies on the basis of a record, obtained from each man on his enlistment, of the Approved Society of which he is a member.

535. It was stated in evidence given on behalf of the Ministry of Health that this system gives rise to some administrative inconvenience, owing to the difficulty of obtaining from a man on his enlistment correct particulars of his Approved Society (*Kinnear*, Q. 373). Many men are found on discharge to have been members of Societies, although on enlistment they stated

that they did not belong to any Society. This results in the Society not being credited year by year with the contributions payable in respect of the man during his service and an adjustment becomes necessary on the man's discharge. Moreover, the Society, not having been notified of the man's enlistment, will have treated him as having gone out of insurance and will have been debited with the transfer value.

536. On account of these administrative objections to the present system, we have considered the expedience of suspending men from insurance altogether on enlistment and re-instating them in insurance when they again take up civilian employment after discharge.

537. One difficulty which would arise under this plan is that in the absence of provision for the automatic re-admission of these men to their old Societies on discharge, such a procedure would entail the loss of acquired rights to additional benefits, a consequence which in certain cases would represent a considerable hardship. On the other hand, if provision were made for their re-admission, it would be necessary for the Department to keep a record of the Societies to which the men belonged at the time of enlistment, and this would present very much the same difficulties as arise under the present system. An even more serious difficulty would arise in respect of men discharged prematurely as invalided. Compulsion on their own Societies to readmit such men could not be justified, with the result that many would permanently lose the advantages of Society membership.

538. There is a further difficulty in the way of the adoption of the proposal to suspend insurance during service. At present, under the Insurance Act, maternity benefit is paid on the confinement of the wives of serving men, although, as we have seen, the insured person pays no contributions during service. If it were, in effect, proposed to place men in the Services wholly outside the Insurance Scheme, it would obviously be necessary to make some provision for a corresponding payment from another source in lieu of the maternity benefit, of which the new arrangements would deprive them. We are informed, however, that the Service Departments, on whom the responsibility for making such payments would naturally fall, do not view such a proposal with any favour.

539. The evidence given by Approved Societies on this subject was not all in one direction. The Hearts of Oak Benefit Society suggested (App. IV, 134-143; Q. 3259-3312) the suspension of insurance during service, but the Joint Committee of Approved Societies were opposed to the proposal (App. XIV, 46), as was also the Manchester Unity of Oddfellows, who expressed the opinion that the present system is satisfactory on the whole, and

should be retained. (App. VII, 76; Q. 5906-5920.) This latter Society has several important Branches established for, and consisting largely of, serving men, and its views are naturally influenced by the effect which the proposal would have upon these Branches. Other Societies with Branches are, to a lesser extent, in the same position.

540. After due consideration of the arguments for and against the proposal, we have come to the conclusion that the proposed change would probably give rise to difficulties at least as great as, though different in kind from, those arising under the present system, and we therefore recommend that no change should be made.

541. There is one further matter in connexion with the insurance of men of the Forces to which our attention has been directed. During their service, any of these men who are not members of an Approved Society become in effect members of the Navy, Army and Air Force Insurance Fund and receive from that Fund the only benefit, viz., maternity benefit, to which they are entitled while serving. On discharge from the Forces it is open to any man of this class to apply for membership of any Approved Society, but if by reason of the state of his health he is not able to obtain admission to a Society, he then becomes permanently a member of the Navy, Army and Air Force Insurance Fund and becomes entitled to receive out of that Fund all the normal benefits of the Act, but not any additional benefits. If he becomes a member of an Approved Society he does not become entitled to participate in any additional benefits provided by the Society until after the waiting period applicable to insured persons transferring from one Society to another. We have received a statement from the Secretary of State for War on behalf of the three Service Departments submitting two suggestions for improving the position of men discharged from the Forces as regards title to additional benefits (App. CXXIX). These suggestions were (1) that the benefits payable out of the Navy, Army and Air Force Insurance Fund to discharged men who are established as permanent members of the Fund should not in future be confined to the normal benefits of the Act, but should include also additional benefits equivalent to the average of those provided by Approved Societies in general; and (2) that men who join Approved Societies on their discharge from the Forces should not be subject to the ordinary waiting period before becoming entitled to additional benefits.

542. We are informed that the financial position of the Navy, Army and Air Force Insurance Fund (the solvency of which is guaranteed by the Service Departments) is so satisfactory that it can well afford the cost which would be involved in giving effect to the first of these two suggestions, and that there is a sufficient margin in the contribution payable during service to

provide reasonably for the second. We are also satisfied that there is ample justification for the proposition that the insurance rights of men who have served with the Forces of the Crown should be improved in the manner suggested and we, therefore, recommend that statutory provision should be made accordingly. In the case of men who transfer to Approved Societies on discharge from the Forces, we consider that the new provision should take the form of requiring them to be treated for the purpose of title to additional benefits as though they had been members of the Society from the date of their joining the Forces and that to enable this to be done the transfer values payable out of the Navy, Army and Air Force Insurance Fund should be augmented by the estimated share of surplus earned during their period of service.

Mercantile Marine—Foreign-Going Seamen.

543. The original intention of the National Insurance Bill of 1911 was to segregate in one Society all foreign-going seamen of the Mercantile Marine. Owing, however, to some conflict of opinion between the leaders of the various interests concerned the efforts made in this direction were unsuccessful, and we are informed that the 100,000 foreign-going seamen insured under the Act are distributed over about 1,600 different Societies and Branches (*Kinnear*, Q. 23,769). The Seamen's National Insurance Society has about 40,000 foreign-going seamen members and the National Sailors' and Firemen's Union about 20,000, while of the remaining 40,000, 24,000 are in seven different Societies. We understand that the difficulties in the way of forming a single Society for these men have hitherto proved insurmountable, and that the main obstacle has been the rivalry of the two large Societies which have between them 60 per cent. of the total membership of foreign-going seamen.

544. The foreign-going seamen are undoubtedly a difficult class to deal with, owing to the nature of their calling, and many of them are indifferent as to the surrender of cards. We were informed by Sir Norman Hill (App. XXXI, 14) that the leakage of contributions in the case of the Seamen's National Insurance Society was between 25 and 33 per cent., and we are given to understand that a Departmental Committee which recently considered the problem, while not accepting this figure, were satisfied that the loss was substantial and far in excess of that amongst landsmen.

545. Having regard to this considerable loss we have given careful consideration to the suggestion made by the Seamen's National Insurance Society (App. XXXI, 40-42; Q. 12,060-12,071, 12,086-12,089 and 12,146-12,165) and the National Sailors' and Firemen's Union (App. XLIII, 16; Q. 13,977-13,985 and 14,037-14,040) that the collection of contributions in the case of foreign-going seamen should be made not by the stamping of cards but on a schedule system. Under such an arrangement the paying-off officer on each vessel would be responsible for handing to the Superintendent of the Mercantile Marine a schedule giving full particulars of each seaman and the period of the voyage, and the contributions in respect of the seamen included in the schedule would be paid in cash to the Central Department, who would, in turn, be responsible for transferring credit to the appropriate Societies through a clearing-house established for the purpose. We examined Sir Walter Kinnear as to the practicability of this proposal, and quote from his reply:—

> "I have read carefully the evidence given by Sir Norman Hill to the Commission and I am inclined to think that the estimate of loss of contribution income for foreign-going seamen given by him is excessive, but there is no doubt that a substantial loss in fact occurs through failure of the contribution cards to reach the Societies. We think the system might be altered on the lines of the schedule system suggested by Sir Norman Hill; indeed it has become a matter of more moment since the introduction of the Contributory Pensions Scheme of this year. . . . It is suggested that in place of the collection of contributions by cards the contributions of foreign-going seamen should be paid in a lump sum with a schedule on the termination of each voyage. The dissection of the schedule and the credit to Societies would be made by some Central Clearing House of which Societies having a substantial seamen membership would defray the cost. I should like to bring under the notice of the Commission, the fact that this would be a fairly difficult machine to administer because these foreign-going seamen at present are distributed over about 1,600 to 1,700 different Societies and branches. Of course, the great bulk of them are in a very limited number of Societies, but that is one of the problems which we shall have to face in introducing this new system." (Q. 23,767-23,769.)

546. We are convinced that such a system would undoubtedly eliminate to a large extent the present leakage of contributions and in addition would be much more convenient to the shipowners. No new statutory powers would be necessary in order to put the system into operation. We are assured that such a scheme would prove workable, and that effective safeguards could be taken to ensure that contributions were credited to the proper Societies.

547. We recommend accordingly that in the case of foreign-going mercantile marine members the card system of collecting contributions should be abandoned, and a schedule system

instituted on the lines referred to above. We think that in view of the magnitude of the work of allocating the contributions to Societies the responsibility of the Central Department's clearing house in this matter should be limited to those Societies having a reasonably large membership of mercantile marine members and that all other Societies and Branches having members of this class should be required to lodge a claim on the Department for the contributions paid in respect of the members. The cost incurred in crediting Societies with contributions on this basis should be borne *pro rata* by the various Societies concerned.

548. The proposed schedule system for the collection of contributions would apply only to contributions payable in respect of service in the foreign trade, since an essential part of the system is the paying-off of the crew in the presence of a Superintendent of the Mercantile Marine, and the verification by him of the amount properly payable as Health Insurance contributions—a procedure not followed in the case of ships engaged in the home trade. In this connexion we foresee some difficulties to which the adoption of the schedule system may give rise. A very large proportion of foreign-going seamen are not employed solely in the foreign trade throughout each year, but have also periods of service in the home trade, or of employment on shore. For these periods contributions will continue to be payable in the ordinary way by the affixing of stamps to half-yearly cards which will be issued by the Societies and, when stamped, will have to be returned to the Societies by the seamen. For all these men, therefore, the Societies will be compelled to keep separate records of contributions paid under each system. There will also be the danger that men who in respect of their normal employment on foreign-going service are absolved from the responsibility of taking any steps to see that their contributions are properly credited to their Societies, will become more lax in taking the steps which will still be necessary as regards the contributions payable in respect of service in the home trade. or employment on shore. Unless the Societies make special efforts to impress upon their seamen members the importance of their responsibilities in this latter respect, there will be a risk that any improvement in the collection of contributions in respect of foreign-going service which may result from the adoption of the schedule system, may be offset by a loss of income to the Societies in respect of employment of their members in the home service or on shore.

549. We have also given careful consideration to the question of the possibility of compulsorily transferring all seamen to one Society, but we feel that notwithstanding the advantages that would ensue the difficulties in the way of enforcing such an arrangement would in all probability prove insurmountable. Any such unification must, we think, be left to the Societies themselves and we are told that there is already a movement in this direction so far as the two largest Societies for seamen are concerned.

550. While we regard it as unfortunate that insured persons of this class are scattered among so many Societies we do not recommend that definite provision should be made for their segregation in one Society. We consider, however, that the Department should keep this in view as an ideal desirable of attainment, and that they should wherever practicable, exercise their powers of persuasion in order to approach that end.

551. A further matter relating to seamen of the Mercantile Marine to which our attention was directed, was the special arrangements for the provision of medical benefit to members of the Seamen's National Insurance Society. It is provided by Section 63(5) of the Act that the medical benefit of members of this Society shall be administered by the Society itself instead of by Insurance Committees, and in accordance with this provision the Society makes arrangements with doctors in the leading ports for attending any members of the Society who may require medical attendance. The Society accordingly are not debited, like all other societies, with payments to Insurance Committees in respect of medical benefit, but themselves pay out of their own funds the doctors who attend any members of the Society. For this purpose a scale of fees on an attendance basis has been agreed between the Society and representatives of the medical profession and is revised from time to time. Full particulars of the arrangements are set out in Appendix XXXI, 32. The Society desire that these special arrangements should be continued, but on the other hand, we have received evidence from a number of sources that there was no necessity for the continuance of the arrangements and that members would be at no disadvantage by being placed in the same position as all other insured persons as regards arrangements for medical benefit. For example, the National Sailors' and Firemen's Union, the membership of which is also almost exclusively composed of seamen of the Mercantile Marine, say :—

"As far as we know, the ordinary medical benefit arrangements work as well for seamen as for any other section of insured persons. I do not remember receiving any complaint that any of our members could not get medical attention whenever it was required through any fault in the medical benefit arrangements. As far as our experience goes there would appear to be no reason for any special arrangement regarding the medical benefit of men employed in the Mercantile Marine." (App. XLIII, 21.)

Again, the Federation Committee of the Associations of Insurance Committees speaking on behalf of all the Insurance Committees of the country make the following statement :—

" In the early days of the insurance medical service there may have been some reason for separate arrangements, but in view of the modifications since made to meet the needs of temporary residents and travellers, and the development of the collective responsibility of insurance practitioners to provide treatment (including emergency treatment), the initial reasons no longer exist for the exceptional arrangements for members of this Society which do not extend to persons in the mercantile marine who join other Approved Societies." (App. XXXVI, 168.) We also questioned the representatives of the Ministry of Health on the subject, and the following reply indicates the views of the Ministry :—" Since medical benefit was first instituted, the arrangements for the treatment of temporary residents and the recognition of the right of any insured person to treatment whether on the list of a doctor or not, make it, in our view, unnecessary to continue the exceptional treatment of the Seamen's National Insurance Society. A large number of foreign-going seamen are members of other Societies, and, as far as I know, there is no evidence that these persons experience any difficulty in obtaining whatever treatment they need under the ordinary provisions of the Act." (*Brock*, Q. 23,995.)

552. We are satisfied that whatever may have been the position at the inception of the Scheme there is no longer any necessity for special arrangements for the medical benefit of members of the Seamen's National Insurance Society and we, therefore, recommend that these arrangements be discontinued and that members of the Society should in future receive their medical benefit under the normal arrangements.

553. It was urged upon us by the Seamen's National Insurance Society (App. XXXI, 43) and the National Sailors' and Firemen's Union (App. XLIII, 26) that an increased rate of administration allowance should be made to Approved Societies in respect of members serving as foreign-going seamen. We do not consider that any such claim should be allowed, as it would open the door to similar claims in respect of other classes of insured persons. In any case the position would probably be met by the adoption of the revised system of collecting contributions which we have suggested.

The Lascar Fund.

554. It may be convenient to deal here with certain suggestions which were made to us by Sir Norman Hill when giving evidence on behalf of the Special Fund for Seamen, commonly called the Lascar Fund (App. XXXII; Q. 12,178-216). This is a Fund derived from the contributions payable by shipowners in respect of seamen having no domicile in the United Kingdom, and the fund is used for providing pensions to men between 65 and 70 years of age who have had long sea service. These pensions are at present restricted to members of Approved Societies,

and the first suggestion made to us was that this restriction should be removed and that the pensions should be thrown open to all seamen domiciled in the United Kingdom who have served in the British Mercantile Marine. On this proposal Sir Walter Kinnear made the following comment :—

> " Many seamen cease, on account of age and infirmity, to go to sea for a prolonged period, and if they do not take up insurable employment on shore, their insurance and Society membership have ceased before they reach pension age. An example is the crofter seaman of the Hebrides who has left the sea for several years and maintains himself by cultivating his croft. We have also the case of officers and engineers in the Mercantile Marine who are excepted from insurance by the remuneration limit and are not members of Societies. The contributions forming the income of the Lascar Fund are those paid by the employers for foreign seamen, not domiciled in the United Kingdom, who are not insured. They are, therefore, in the nature of a general tax on the running of the ship, and may be held in equity to be utilisable for the benefit of all British seamen, and not merely for the class who happen to be members of Approved Societies. . . . That proposal has already been adopted by the Ministry of Labour as regards pensions derived from Unemployment Insurance contributions, and we therefore recommend that this particular request be granted." (*Kinnear*, Q. 23,771.)

555. We are satisfied that there is a good case for the suggested change, and we therefore recommend that Section 64 (4) of the Act should be amended by the omission of the words " being members of Approved Societies."

556. The second suggestion made to us with reference to the Lascar Fund was that the cost of administering the Fund, which under the Act has to be apportioned amongst Approved Societies whose members are entitled to the benefits, should be borne by the Fund itself. On this suggestion, Sir Walter Kinnear said :—" It would be very difficult to levy Societies in that way. As a matter of fact, that Section of the Act has never yet been put into operation. Societies have considerable difficulty in ascertaining precisely their seamen membership. We think it is hardly reasonable to charge Societies with the cost of administering the Pensions Scheme, and it is therefore suggested that Section 64 (5) of the Act should be amended to provide that the cost of administration should be borne by the Lascar Fund itself." (*Kinnear*, Q. 23,771.)

557. We are satisfied that this also is a desirable change, and therefore recommend that Section 64 of the Act should be amended accordingly.

558. There is one further matter in connexion with the Lascar Fund which was not specifically raised before us in evidence, but to which we think it necessary to call attention. The Fund is at present used to provide pensions to ex-seamen between the ages of 65 and 70. Under the Widows', Orphans' and Old Age Contributory Pensions Act, however, the State has now made provision for old age pensions from the age of 65, and no contribution towards the cost of these pensions is made by shipowners in respect of seamen not domiciled in the United Kingdom. On the other hand, under Section 64 (5) of the National Health Insurance Act, the ordinary proportion of the cost of pensions awarded out of the Lascar Fund is payable by the State. We are not aware in what way the scheme of seamen's pensions will be amended on the coming into operation of old age pensions at 65, but in any case we do not consider it a fair and reasonable arrangement that, in the circumstances referred to above, the Exchequer should be called upon to contribute towards the cost of pensions and other benefits awarded out of the Fund, and we recommend, therefore, that the State grant in respect of such pensions and benefits should be withdrawn.

SECTION E.—VALUATION OF SOCIETIES AND PROVISION OF ADDITIONAL BENEFITS.

Valuation of International Societies.

559. Suggestions were made to us on behalf of the Ministry of Health for the amendment of various statutory provisions with regard to the valuation of Approved Societies. The first of these related to what are ordinarily known as "International Societies."

560. Section 83 (3) of the 1911 Act provided that Approved Societies which operated in more than one part of the United Kingdom were to be valued separately in respect of each country in which members were resident. They were thus required to be treated for accounting and valuation purposes as though the members resident in each country formed a separate Society, and this provision was applicable even to Societies with a wholly unified administration centred in that country in which the head office—or it might be the only office—was situated. Section 16 of the 1913 Act repealed this provision, but conferred upon members in countries other than that in which the head office of the Society was situated an option to be exercised within a limited period of six months whereby, if they so desired, they might elect to continue to be separately valued. Section 3 (7) of the 1918 Act renewed the option for a further period of six months. At the same time an opportunity was also given to the members resident in any country for which a separate valuation had been retained to reverse their decision with the consent of the central governing body of the Society.

561. It has been suggested to us (*Kinnear*, Q. 23,651) that in view of the difficulties which arise in the case of persons who remove from one part of the United Kingdom to another while retaining their membership in the same Society, national sections of Societies which are separately valued should be given a further opportunity, if they so desire, of having in future a combined valuation. We have also considered the converse proposition that international Societies with a single valuation should be given the option of separate national valuations.

562. We consider that there are very strong arguments in favour of giving to international Societies a further opportunity of electing to have a combined valuation for the various countries in which they operate. We are impressed by the fact that in the type of case we are considering there is no separate administration in respect of those portions of the Societies which are subject to separate valuation, and we feel that so long as a common administration is responsible for the conduct of the affairs of the whole Society, there should ordinarily be a common sharing of the contingencies against which the members are insured. We understand, also, that when additional benefits first became payable it was ascertained that the effect of the Act and the Regulations was to place a member of such a Society changing his residence from one country to another in the same position, so far as concerned additional benefits, as a person who had changed his Society, thus depriving him for a time of his title to additional benefits. While Regulations have now been framed to obviate this hardship to the individual, it has been necessary, in applying them, to disregard certain financial considerations which ought to have weight. We think, moreover, that the present conditions which require the maintenance of separate funds for the separately valued national sections and the passing of transfer values in all cases of migration must seriously complicate the task of administration and add to its cost, without securing any adequate corresponding advantage.

563. On the question of allowing unified Societies to establish separate funds on a national basis, our opinion is equally definite. We think that combined valuation is now the normal principle, and that the right of election for separate valuation is no longer admissible. We do not, therefore, consider that in the future any option should be given to international Societies to make such a constitutional change as would enable them to be valued separately in respect of each part of the United Kingdom in which they carry on business.

Associations of Approved Societies.

564. Under the 1911 Act all Approved Societies which, at the date of valuation, had less than 5,000 members, were required, for the purposes of meeting deficiencies revealed on

valuation, to be associated with other Societies in an Association formed for the purpose, or if they had not joined any such Association, to be compulsorily grouped on a geographical basis. The 1918 Act amended these provisions, and the existing enactment provides for the approval of Associations of Societies formed for mutual assistance against adverse results on valuation by means of a pooling of the Contingencies Funds of the constituent Societies. The Association in effect acts as a Society, and the constituent Societies as its branches for the purpose of dealing with surpluses and deficiencies. The Act further provides that in the case of Societies with less than 1,000 members which have not at the date of valuation joined a recognised Association, any balances of the Contingencies Funds not required for making good deficiencies in the Societies themselves are to be applied *pro rata* to such an extent, not exceeding one-half, as may be necessary towards making good the balances of the deficiencies remaining in the case of other Societies of this class.

565. We are informed that no case has arisen in which it has been necessary to put into operation the main provision for which Associations were formed. (*Kinnear*, Q. 594 and 23,598.)

566. While we recognise that statutory Associations fulfilled a useful purpose under the original scheme, we consider that their main function is now rendered unnecessary, having regard to the adequate protection afforded to small Societies by the financial provisions relating to the formation of Contingencies Funds and the Central Fund.

567. We accordingly recommend that the provisions of Section 76 of the Act, enabling Associations to be formed for the pooling of Contingencies Funds, should be repealed. At the same time, we see certain advantages in allowing Associations of Societies to continue on a voluntary basis for purposes of consultation and general co-operation in the work of the Insurance Scheme, and we have no desire to interfere with the continuance of such Associations, should they see fit to continue in existence on a wholly voluntary basis for the purpose of affording each other mutual counsel on questions that may arise.

Period of Schemes of Additional Benefits.

568. The next matter to which our attention was directed was the period of operation of schemes of additional benefits provided out of a surplus disclosed on valuation. (*Kinnear*, Q. 23,651.)

569. Section 75 of the Act provides that where, on the valuation of a Society or Branch, there is found to be a surplus which is certified by the valuer to be disposable, the Society or Branch may submit to the Minister a scheme of additional benefits for his approval. The Section fixes no limit to the period of currency

of any scheme so submitted, and the present limitation of the period to five years rests solely on provision made in the scheme itself, as submitted to the Minister by the Society or Branch.

570. It has been suggested to us that it is desirable to place a definite statutory limit on the period for which a scheme of additional benefits should continue to operate. Under the existing provisions of the Act there is nothing to prevent a scheme operating indefinitely, subject to a provision suspending its operation if a deficiency is disclosed on a subsequent valuation. But the period over which the benefits of a scheme will extend constitutes an essential element in fixing the rates of those benefits, and consequently no scheme can be framed until its duration has been first determined, and the necessary data for the actuarial calculations thus completed. In these circumstances, it has been found necessary to require Societies to include the period for which the scheme is to run as an essential condition of any scheme submitted for the approval of the Minister. It has been suggested that a matter of such importance ought not to be left for regulation in this indirect manner, and that the Minister should be explicitly vested by the Act with the necessary powers.

571. We agree that the incorporation of this condition in the Statute is desirable, and we recommend accordingly that provision should be included in Section 75 of the Act which will limit the period of currency of schemes for the distribution of additional benefits to such period as may be fixed by the Minister.

Proportion of Surplus Certified as Disposable.

572. It was brought to our notice (*Kinnear*, Q. 23,651) that difficulty had arisen with regard to the large amounts of surplus which in many cases had been certified as disposable on the second valuation of Societies. The recent experience of the great majority of the Societies and the profit margins in sight in regard to their future working were such as to lead the Valuers to the conclusion that in these cases the whole of the surpluses shown were disposable. On the other hand, it had been decided, for sound administrative reasons, that the additional benefit schemes to be made after the valuation should be limited to a period of five years, and it was clear that if the disposable surpluses resulting from a period of great and, as it well might prove, exceptional prosperity were allowed to be spent in a single quinquennium there might be a grave risk of the additional benefits being generally raised to a level at which they could not be permanently maintained. Such an eventuality might occasion considerable disappointment in future to the insured classes, and might further entail a serious measure of disorganisation in so far as arrangements might have been entered into for the provision of treatment benefits. In these circumstances an arrangement was made between the Ministry of Health and the Scottish Board

of Health, and the Government Actuary, in pursuance of which the valuers, in addition to certifying the disposable surpluses, informed the Societies of the amounts to which it would be prudent to limit expenditure under schemes with a currency of five years. The assent of the Minister, or the Board, as the case may be, has accordingly been given to schemes framed on these lower amounts, leaving the balances of the disposable surpluses to be carried forward to assist in the maintenance of additional benefits in the future.

573. It is evident that if the currency of schemes of additional benefits is to be definitely limited to a fixed period, a Society, in preparing its scheme, will primarily require to be informed of the amount of surplus which it can safely spend in that period, and it has been suggested that in arriving at this amount regard should always be had to the considerations advanced in the last paragraph. From this point of view the disposable surplus would be the amount which in the opinion of the valuer could properly be expended during the currency of the scheme. To enable the valuer to give a certificate carrying this meaning it would be necessary for the Act to indicate the conditions to which he was to have regard in giving his certificate. In this respect the Act is at present silent, and the valuer must certify the full amount of the surplus which he considers disposable, even though it would be the height of imprudence for the Society to frame a scheme under which the whole of the surplus would be distributed in the years immediately following the valuation.

574. We are satisfied that it is desirable to make provision in the manner suggested, and we recommend that Section 75 of the Act should be amplified so as to provide that the Treasury valuer, in certifying what part of a realised surplus is disposable, shall have regard to the probability of the continued maintenance of any additional benefits to be provided in the scheme next to be made.

Revision of Schemes of Additional Benefits.

575. There is no provision in the Act itself which enables the Minister, once he has given approval to a scheme of additional benefits, to require a Society to review that scheme even though such a review may become highly desirable in the light of experience gained during the period of the five years for which the scheme operates. We are informed that in so far as schemes arising under the second valuation are concerned a clause to the following effect has been inserted in every scheme :—

> "If at any time during the currency of this scheme the Minister declares that he is satisfied in the light of experience of the administration of additional benefits by Approved Societies generally that it would be to the advantage of insured persons participating in those benefits that further or other conditions should be attached to the administration of any of the benefits comprised in this Scheme, the benefits shall be administered by the Society as if those conditions had been incorporated in and formed part of this Scheme."

576. We do not, however, regard it as satisfactory that a provision of so important a nature should rest upon no higher authority than a clause in a Society's scheme. Having regard to the large sums which are now available for distribution in the form of additional benefits, we consider that all schemes should be subject to regulations in force at the time and that the Minister should be empowered to make and amend those regulations as and when necessary, and we recommend that Section 75 (2) should be amended accordingly.

Eligibility for Additional Benefits.

577. It is provided by Section 75 (4) of the Act that "additional benefits shall not, except as otherwise prescribed, be distributed among any persons who were not members of the Society or branch on the date as at which the valuation was made." The regulations made under the Section provide that persons who have been members continuously for a period of five years may be entitled to participate in additional benefits, notwithstanding that they were not members on the date as at which the valuation was made.

578. It has been suggested to us (*Kinnear*, Q. 23,651) that the Section as worded is not satisfactory inasmuch as it does not state in positive form the persons who must be allowed to participate in the additional benefits provided by any Approved Society, but merely lays down certain limitations on the power of Societies to provide in their schemes what persons are to be so entitled.

579. We think that the qualifying conditions for participation in additional benefits should be uniform in all Societies and should be laid down in the Act itself or in regulations. On the whole, and particularly in view of the possibility of the conditions having to be varied from time to time, we think that they should be contained in regulations and we, therefore, recommend that Section 75 (4) of the Act should be amended so as to provide that the conditions under which persons shall be entitled to participate in additional benefits shall be such as may be prescribed.

580. Our attention was directed by several witnesses to the present arrangement under which the title to participate in additional benefits does not accrue until the beginning of the fifth year after that in which an insured person joins a Society either as a new entrant into insurance or by transfer from another Society. In the latter case in particular it appears to us to be open to serious criticism that the theoretical right of free choice

of Society should be fettered by the fact that a person transferring from one Society or Branch to another loses additional benefits for a substantial period of time. It is true that the new Society is not under any obligation to accept the member, nor is the member under any compulsion to leave. Nevertheless there must be many cases when a change of residence makes it wholly reasonable that an insured person should desire to transfer his membership to another organisation, and in consequence considerable hardship must not infrequently be inflicted. But apart from cases where the desire to transfer arises from a change in the insured person's residence, it must be remembered that the Act contemplates that insured persons should enjoy, subject only to such safeguards as may be necessary, a liberal right to transfer, when they so desire, from one Society to another willing to accept them. It appears to us *prima facie* indefensible that the exercise of a fundamental right conferred by the Act should entail any greater loss than is inevitable.

581. The evidence we have received on this subject varies. The hardship is generally admitted, but the difficulties of giving the transferring member either the additional benefits of the new Society or those of the old are pointed out. The administration of Societies is already so complicated as to make it on the whole undesirable that they should have to administer different schemes of additional benefits for different members. On the financial side, the necessity for having the transfer values loaded to meet the cost of additional benefits has to be considered. If, on the other hand, the benefits granted are to be those of the new Society, it is clear that the old Society cannot be expected to pay for them. In this event there is a serious risk of the financial soundness of a Society being impaired by an active policy of canvassing for members.

582. Another very important point has been put to us in connexion with the treatment benefits. It seems very undesirable that a person who has enjoyed treatment benefits, for example, dental benefit, in one Society should lose this for a lengthy period on transferring. Even more important is the fact that young persons, who may have been receiving dental treatment at school will, for a period of seven years, i.e., the two years from 14 to 16 and the five waiting years, be unable to qualify for this important benefit. (*British Dental Association*, Q. 9227).

583. The Hearts of Oak Benefit Society (App. IV, 333-339; Q. 3756-3757) desire the retention of the waiting period, but realise the importance of dental benefit between the ages of 16 and 21. They suggest that it should, partly for this reason, be made a statutory benefit. (App. IV, 255-284.) They also concur in the view that it would not be practicable to give a transferring member a title to the same additional benefits as he received from his former Society. The

Ancient Order of Foresters (Q. 4389-4390) recommend the retention of the waiting period on the ground that "it is a healthy condition of things that a member, entering a Society, should serve a certain period, approximating to the quinquennium, before he becomes entitled to such additional benefits as the Society he joins is paying. It is true that a person entering insurance for the first time and a person transferring from another Society are not on the same footing in that respect. But I think that is covered by the fact that nobody is really compelled to transfer, although it may be to their advantage and convenience." The National Conference of Industrial Assurance Approved Societies (Q. 5236-5238) are of the same opinion, and think that there is no evidence of hardship resulting from loss of additional benefits on transfer. The Independent Order of Oddfellows, Manchester Unity (Q. 5738-5741, 5982-5983, 6088-6097), also say that they have no complaints, and think that any loading of the transfer value would lead to great complications. The United Women's Insurance Society favour the abolition of the waiting period and consider that there is no objection to a loaded transfer value for the cash benefits, and state that the ordinary transfer value would be accepted by them for the non-cash benefits. (App. XXIV, 13; Q. 10,186-10,188, 10,197-10,199, 10,239.) The Stock Exchange Clerks' Health Insurance Society (App. XV, 5; Q. 8446-8447, 8481-8486, 8553-8565) are also in favour of immediate title in the new Society to additional benefits on the scale of the old Society. The Independent Order of Rechabites (App. VIII, 36) are willing to have a modification in the case of transfers between Branches of the same Societies. The Public Dental Service Association (Q. 9794) point out that the five years' waiting period is a serious handicap to good dentition. The National Association of Trade Union Approved Societies state (Q. 22,073) that "there is no freedom of choice of Society while the insured person forfeits his right to additional benefits. As most Societies are giving additional benefits, transfers are almost impossible." The Standing Joint Committee of Scottish Insured Women suggest (App. XLVI, 27; Q. 14,550-14,551) that the waiting period should be reduced to two years.

584. The evidence from the Ministry of Health was to the effect that, on the whole, the difficulties of the loaded transfer value and the administration of different scales of cash benefit are so great that, in spite of the hardship, the present Scheme should be retained, so far as the cash benefits are concerned; but they suggest that the title to treatment benefits, in the case of those entering into insurance for the first time or transferring from one Society to another, should mature at the beginning of the third year, thus giving a $2\frac{1}{2}$ years' waiting period, on the average. A Society has a limited fund for treatment benefits,

and this would provide for the small number of transferring members until it was exhausted. (*Kinnear*, Q. 652-655, 672-693, 23,729-23,748.)

585. We have given this matter our most careful consideration. We are satisfied that the present arrangements impose too severe a penalty on transfer from one Society to another, and should, therefore, be modified. At the same time, we are impressed by the arguments put before us by the Ministry as to the dangers of widespread canvassing for transfers which would be likely to result from the granting of immediate title to additional benefits on transfer. We also recognise that the granting of this right would necessitate the loading of the transfer value, and we are advised that actuarially this would involve very serious difficulties, regard being had to the variations in the scales and range of additional benefits and to the fact that the dates of transfer would bear no relation to the periods for which the schemes of additional benefits of the various Societies were current. We have considered whether the suggestions put forward by the Ministry and referred to in the preceding paragraph would provide a reasonable solution of the problem, but we have come to the conclusion that they do not go far enough. We see no sufficient reason for any change in the present position as regards title of additional benefits for new entrants into insurance, but in the case of persons transferring from one Approved Society to another we think that the title to participate in all additional benefits—whether cash or treatment benefits—provided by the new Society should mature at the end of two years after the date of transfer, and we accordingly recommend that this change should be made.

586. We are of opinion that the waiting period of two years will provide sufficient protection against the evil of undue canvassing for transfer.

587. We recognise, however, that even with this limitation the financial position of a Society might be seriously prejudiced if the number of persons admitted to membership by way of transfer were allowed to reach a substantial proportion of the total membership of the Society, unless the transfer values had been increased to cover the extra liability imposed by the grant of additional benefits. We are anxious to avoid such adjustment of the transfer values, partly for the reasons given above and partly because we cannot contemplate that the Society which a person leaves should be charged with the value of additional benefits on the scale given by the Society to which he goes. To provide a safeguard against this risk, we recommend that the Minister should be given power to suspend the right of any Society to accept members by way of transfer if the membership of the Society has been increased in this way since the date of the last valuation by more than a prescribed proportion fixed in accordance with actuarial advice.

588. In the case of transfer between Branches of the same Society, where in practice no transfer of membership is likely to arise unless the member moves from one locality to another, we think that it might be left optional to the Societies to allow the title to participate in the additional benefits of the new Branch to be given immediately on transfer. In the special circumstances indicated it is unlikely that the financial position of any Branch accepting transfers would be sensibly affected by this concession.

589. There is one type of case in which we think that a special exception might be made to the normal provision as to title to participate in additional benefits. We have referred in paragraph 461 to certain classes of insured persons, such as bank clerks, insurance officials and the like, who normally pass out of insurance at a comparatively early age by reason of their rate of remuneration rising beyond the limit of £250 a year. These persons are mostly congregated in a few Approved Societies formed specially for their benefit, and these Societies, by reason of the character of their membership, which results in low benefit claims, have large surpluses on valuation. The anomalous position then arises that before a scheme of additional benefits has been brought into operation or during its currency, many of the persons who, as members of the Society, contributed to build up the surplus pass out of insurance and are consequently no longer eligible to participate in the benefits.

590. It was suggested to us by Mr. Duncan Fraser, giving evidence on behalf of the Royal Insurance Officials' Benevolent Association, that in order to deal with this position there should be a special extension of the period during which title to additional benefits should continue after the cessation of insurable employment (App. XXVII, 20; Q. 11,085 and 11,106-11,113). The same suggestion was supported by witnesses representing the Stock Exchange Clerks', Baltic Corn Exchange and Lloyds' Health Insurance Societies (Q. 8535-8552), and also by Sir Walter Kinnear (Q.23,397, 23,399 and 23,407-23,427). We think that in these exceptional cases such special extension might reasonably be made as regards title to participate in additional benefits in the form of treatment. We therefore recommend that provision should be made to the effect that where the valuer certifies that a substantial part of the surplus of a Society has accrued in respect of members who have ceased to be insured as employed contributors by reason of passing over the income limit, or are likely so to cease in the near future, the scheme of additional benefits may, subject to the approval of the Minister, provide for an extension of the period during which additional benefits, other than cash benefits, may be provided to persons who are, or within a period provided by the scheme have been, members of the Society.

SECTION F.—EXTENSION OR ALTERATION OF THE LIST OF ADDITIONAL BENEFITS.

591. A list of the additional benefits, one or more of which may be adopted by a Society in the enjoyment of a disposable surplus on valuation, is contained in the Third Schedule to the Act and in the Regulations made under paragraph 14 of that Schedule. The list comprises, in all, no fewer than 19 different benefits, and we have had to consider whether additions to the list are desirable, or whether, on the other hand, any of the items included in the present list are for any reason unsuitable or redundant, and might, therefore, with advantage be deleted. On this subject we have had some interesting evidence from the Ministry of Health (see App. I, B, 201-219, and *Kinnear*, Q. 23,687-23,718). We have already referred in Chapter V to some of the more important of the present additional benefits and have indicated to what extent they have been adopted by Societies. We will now deal with some of the benefits included in the list which have been adopted by very few Societies or have not been put into operation at all.

Proposed Removal from Present List.

592. No. 1 on the list of additional benefits is " medical treatment and attendance for any person dependent upon the labour of a member." On this, Sir Walter Kinnear said, " As far as England is concerned, this benefit has never been adopted by any Society, and the provision is really one appropriate for consideration in connexion with the general scope of medical benefit. It is scarcely suitable as an additional benefit. It is of much greater importance than the question of a mere additional benefit, and its cost would be much greater than could possibly be given, as far as I can conceive, by any individual Society as an additional benefit. I therefore suggest that that additional benefit should be eliminated " (Q. 23,687). We agree that an extension of the scope of medical benefit of the kind contemplated should not be made by way of an additional benefit out of the surplus funds of certain Societies, and we would point out, moreover, that, in accordance with Section 75 (5) of the Act, this particular benefit, if adopted by any Society, would have to be administered, not by the Society itself, but by the Insurance Committee or other body responsible for the administration of medical benefit. On the ground of its impracticability under present conditions, we therefore recommend that it should be removed from the list of additional benefits.

593. No. 3 on the list is " an increase of sickness benefit and disablement benefit in the case either of all members of the Society, or of such of them as have any children or any specified number of children, wholly or in part dependent upon them." This benefit really falls into two parts: (1) payment of increased benefit to all members, and (2) payment of increased benefit to members with dependent children. The former of these is now a feature of the additional benefit schemes of nearly all Societies, and is working well. As regards (2), the benefit is open to criticism on the ground that it makes no provision for the payment of the additional benefit in respect of a dependent wife. We are also advised (*Kinnear*, Q. 23,689) that actuarial calculations involving an amount of work wholly disproportionate to the purpose to be served would be necessary in the case of each Society proposing to adopt the benefit. We think that the question of allowances of this nature is more appropriate for consideration in connexion with the payment of increased sickness or disablement benefit to all insured persons with dependants, a subject with which we have dealt in Chapter XI of our Report. We therefore recommend that additional benefit No. 3 should be restricted to " an increase of sickness benefit and disablement benefit."

594. Additional benefit No. 4 is " the payment of sickness benefit from the first, second or third day of incapacity." We can understand a Society desiring to pay sickness benefit from the commencement of illness (and not a few Societies have, in fact, adopted this as an additional benefit for their members) or, on the other hand, being satisfied with the normal provision of the Act, under which benefit is paid only from the fourth day of incapacity; but it appears to us to be an altogether unnecessary refinement to contemplate the possibility of any arrangements intermediate between these two courses. Furthermore, the actuarial calculation of the estimated cost of paying sickness benefit from the second or third day of incapacity would be a heavy and expensive task, compensated by no corresponding advantage. We therefore recommend that the words " second or third " should be deleted from the definition of this benefit.

595. Additional benefit No. 5 is " the payment of a disablement allowance to members though not totally incapable of work." This benefit has not been adopted by any Society, and would be extremely difficult to administer satisfactorily. Without a degree of supervision which in most Societies would be quite impossible, it would be likely to lead to serious abuse. We therefore recommend that this benefit should be removed from the list.

596. Additional benefits Nos. 9 and 10 are the payment of pensions or superannuation allowances or of contributions to superannuation funds. The first of these benefits appears to us to be open to serious objection, on the ground that its enjoyment would necessarily be restricted to a small minority of the members of a Society at the expense of the general body of members. The second of these benefits—payment of contribu-

tions to superannuation funds in which the members are interested—is theoretically attractive, but is believed to be unworkable. The payments are to be subject to the prescribed conditions, and the regulations which have been made show the character of the questions in which the administering Departments would be involved, if this additional benefit were put into practice. These questions extend to the constitution of the superannuation fund, the character of the benefits provided out of it, the manner in which its moneys are invested, and its financial position as shown by its periodical valuations. As the point at issue is the payment of money which has arisen out of contributions compulsorily levied under an Act of Parliament to a fund established on an altogether different basis, it is inevitable that the regulations should provide, as they do, for the intervention of the Joint Committee in the control of the fund to an extent which, if intervention were conceded at all, could scarcely be tolerated by the management of a private and self-governing institution. There appears to be no demand for this form of additional benefit, and if a demand arose we are satisfied that the conditions prescribed by the regulations are, and must be, such that the proposal would not be pursued. We anticipate, therefore, that no use will be made of additional benefit No. 10. At the same time it must not be overlooked that the need for provision of this kind has been much lessened by the introduction of the Contributory Old Age Pensions Scheme. We recommend therefore, that additional benefits Nos. 9 and 10 should be removed from the list.

597. Additional benefit No. 11 is "payments to members who are in want or distress, including the remission of arrears whenever the arrears may have become due." The first part of this benefit, viz., payments to members in want or distress, has evidently met a need and has been adopted by many Societies, but the latter part which, it is to be noted, is restricted in its operation to members in "want or distress," a qualification which is somewhat difficult to apply, has now been rendered unnecessary by reason of the inclusion in the Regulations, under paragraph 14 of the Schedule, of a new additional benefit (No. 19), viz., "the payment in part of any sickness and disablement benefits to which a member, who is an employed contributor, would otherwise have been disentitled owing to arrears due to inability to obtain employment, and the payment of any maternity benefit to which, for the like reason, he would otherwise have been disentitled." We recommend, therefore, that additional benefit No. 11 should be restricted to "payments to members in want or distress."

598. We would also point out that the new additional benefit No. 19 would itself become superfluous if effect were given to our recommendation in paragraph 655, that there should be no

penalty in respect of arrears due to genuine inability to obtain employment.

PROPOSED ADDITIONS TO PRESENT LIST.

599. Coming now to the question of additions to be made to the present list, we have been informed by several witnesses that there is a pressing demand for the inclusion of payments for massage and electrical treatment as an additional benefit, and we have received evidence which convinces us that the provision of this benefit would materially assist in the promotion of earlier recovery in the case of persons suffering from certain types of incapacity. We would refer particularly to the evidence given before us by Dr. Smith Whitaker (Q. 23,973), and that given on behalf of the Chartered Society of Massage and Medical Gymnastics (App. LXVII; Q. 18,437-18,518). We recommend, therefore, that this benefit should be added to the list.

600 Finally, we think it desirable that the whole of the permissible additional benefits, as amended in accordance with our suggestions above, and including those at present prescribed by Regulation, should be included in the Act itself.

SECTION G.—LIMITATION ON INCREASES IN CASH BENEFITS.

601. It was suggested to us by several witnesses, most of whom appeared on behalf of Friendly Societies, that a limit should be placed by Statute upon the amount of the cash increases which an Approved Society should be allowed to provide under a scheme of additional benefits. Thus, the Hearts of Oak Benefit Society (App. IV, 144-157; Q. 3313-3331, 3349-3361, 3367) emphasised the greater relative importance to public health of additional benefits in the nature of treatment, and suggested that no Society should be allowed to apply more than 50 per cent. of a disposable surplus to increases of the normal rates of cash benefits. They are also of the opinion that "the insured population as a whole do not fully realise or appreciate the granting of additional cash benefits," and they add that "we have reason to believe that whether an insured person receives the statutory benefit of 15*s*., or the sum of, say, 18*s*. (including additional benefit of 3*s*.), the recipient is of the opinion that he is only receiving the normal benefit of the Act, and not any additional benefit for which he has not been called upon to pay a corresponding additional contribution." The Ancient Order of Foresters (App. V, 50-53; Q. 4153-4156, 4265-4266, 4271-4273, 4310-4316) also refer to the importance of treatment benefits from the preventive standpoint, and suggest that a reasonable proportion of surplus should be devoted to such benefits by each Society, and that a definite limit should be imposed on the extent to which additional cash benefits may be granted. They also express the view that any considerable

increase in the normal rates of sickness and disablement benefits would approach the borderline of over-insurance. The National Conference of Industrial Assurance Approved Societies (App. VI, 20; Q. 5235, 5245-5269, 5424-5427) suggest that increases to the normal rate of sickness benefit should be restricted to 5*s*., and that not more than two-thirds of the surplus of any Society should be applied to such benefits. The witnesses also referred to the relatively greater beneficial effects of treatment benefits, and expressed the opinion that sickness benefit cannot be administered successfully without certain additional benefits in the nature of treatment. The Manchester Unity of Oddfellows (App. VII, 46-49; Q. 5580-5610, 5923, 5952-5956) urge a statutory limitation of increases in the rates of cash benefits, and consider that excessive cash payments have a tendency to destroy personal thrift. They also consider that treatment benefits are much more important from the standpoint of public health. The Independent Order of Rechabites (App. VIII, 31; Q. 6108) suggest a limit of 5*s*. in the rate of increase of sickness benefit on the ground of the greater value of treatment benefits. The Rational Association Friendly Society (App. IX, 32) state that excessive cash benefits tend to over-insurance and malingering, and on this ground suggest a statutory limitation of additional cash benefits. The Joint Committee of Approved Societies (App. XIV, 6; Q. 8202, 8211-8212) suggest a maximum rate of sickness benefit of 18*s*., in the hope that the large surpluses disclosed on valuation will thus lead to a reduction in the contribution. The Group of Catholic Approved Societies (App. XVII, 2-3; Q. 8590-8591, 8611-8625, 8645-8646) are in favour of the complete elimination of additional cash benefits, while the National Conference of Friendly Societies (App. XXVI, 14; Q. 10,650-10,660, 10,706-10,732), the Order of the Sons of Temperance (App. LXXXIX, 63-64; Q. 21,429-21,430), and the Edinburgh and Leith Friendly Societies' Council (App. LXXXI, 3; Q. 20,673-20,679) support the view that a limit of 5*s*. should be placed upon the rate of increase of sickness benefit, having in view the importance of encouraging voluntary thrift and the more beneficial effects of treatment benefits on public health. The Loyal Order of Ancient Shepherds (App. XLIV, 20) and the Standing Committee of Scottish Insured Women (App. XLVI, 5) make similar recommendations. The National Federation of Employees' Approved Societies (Q. 13,390) oppose any statutory limitation of additional cash benefits, and think that Societies should be given full discretion in disposing of their own surpluses. In conclusion we quote the following from the evidence given before us by Sir Walter Kinnear on this subject:—"The view of the Department is that it is not desirable to place a statutory limit to the possible increase of standard rates of benefit. While most Societies limit themselves to 5*s*. increase in sickness benefit, there are some Societies for which as much

as 7*s*. 6*d*. has been thought reasonable. A statutory limit would have to be above 5*s*., and would tend to be regarded as normal. The problem is to get Societies to adopt a reasonable balance between the amounts allocated to cash increases and to treatment benefits, respectively. I think that the powers of the Minister, in regard to approval of schemes of additional benefits, are sufficient to enable a check to be applied in practice on the extent of increases in cash benefits." (Q. 23,458.)

602. While it will be seen from the quotations given above that there is a considerable volume of evidence from representatives of Friendly Societies in favour of imposing a statutory limit on the amount by which cash benefits might be increased by way of additional benefit, we feel that regard must be had to the considerations which influence the Societies in this point of view. It was evident to us, and was, indeed, frankly admitted by some witnesses, that this suggested restriction was largely, if not entirely, advanced in the interests of the voluntary side of the Societies concerned, and was based on the feeling that the larger the amount of benefit obtainable under National Health Insurance, the less scope would there be for supplementing that insurance by voluntary insurance through the private sides of Friendly Societies. We recognise the force of this argument, and we have no desire to depreciate or to place any unnecessary restriction upon the great work which voluntary Friendly Societies have done and are still doing in the encouragement of thrift. We cannot, however, overlook the fact that these Societies include only a fraction of the whole insured population and that, particularly at more advanced ages, it is not possible, except by payment of an almost prohibitive rate of contribution, for an insured person, who is not already a member of a Friendly Society, to make voluntarily such provision as he may desire for supplementing the benefit obtainable under the State insurance.

603. We are informed that very few Societies provide for an increase of more than 5*s*. in the rate of sickness benefit (with proportionate increases of the other cash benefits) and that there is, moreover, a growing tendency on the part of Societies, in framing schemes of additional benefits, to allocate sums to benefits in the nature of treatment rather than to provide large cash increases.

604. While we do not favour any arbitrary restriction of the right of Societies to dispose of their surplus funds in accordance with the wishes of their members, we think that Societies, in formulating their schemes of additional benefits, should properly have regard, on the one hand, to the danger of over-insurance, and, on the other, to the disparity between the rates of sickness benefit and unemployment benefit. We are informed that the practice of the Department in cases where a Society proposes

to provide for an increase of sickness benefit in excess of 5*s* a week is to impress upon the Society the importance of treatment benefits and to induce it to allocate a reasonable proportion of the surplus to those benefits. We consider that this practice should be continued.

605. Beyond this we do not consider it desirable to lay down any fixed statutory limit to the amount which a Society may devote out of its surplus to the provision of cash increases, and we are of opinion that the question of the disposal of a surplus should be determined in accordance with the wishes of the members, subject to a reasonable control by the Department. We do not therefore recommend any change in the present position in this matter.

SECTION H.—MISCELLANEOUS QUESTIONS AFFECTING APPROVED SOCIETIES.

International Societies with few members in a particular National Area.

606. The Act does not lay down as a condition of continued approval for any national area (England, Scotland, Northern Ireland or Wales) any minimum limit as to the number of members of an international Society resident in that area. We are informed that cases have arisen in which such Societies have retained approval in respect of one or more national areas other than that in which the head office of the Society is situated although the membership in such areas may be negligible compared with the total membership of the Society. Notwithstanding its small membership in one or other of the national areas, the Society is required in such cases to keep separate accounts in respect of its business in each country and to draw its funds from the several National Health Insurance Funds for the various countries. It has been suggested to us (*Kinnear*, Q. 23,652-23,656) that, in order to simplify administration in such cases the Minister or the National Health Insurance Joint Committee should be empowered to withdraw approval in respect of any country in which an international Society has a very small membership. The effect of this would be that the Society would lose the right to accept as new members persons resident in the country in question, a right, it may be observed, which they cannot have energetically exercised in the past.

We accept the view that in the interests of administrative efficiency it is desirable to make provision to this effect. We accordingly recommend that Section 30 (2) of the Act should be amended so as to provide that where the number of members of an international Society who are resident in any country, other than that in which the head office of the Society is situated, is less than a specified small percentage of the total membership, and is not more than a certain number, approval may be withdrawn

in respect of that country, and that the members who are resident therein be deemed to be resident in the country in which the head office of the Society is situated.

Amendment of Constitution of Societies with Branches.

607. We were informed (*Ministry of Health*, App. I, B, 76-77; *Manchester Unity of Oddfellows*, Q. 5702-5704; *Loyal Order of Ancient Shepherds*, Q. 14,062-14,067; *Grand United Order of Oddfellows*, App. XCV, 1) that several Approved Societies which administer the Act through the medium of Branches had found it desirable to amend their constitution by the grouping of Branches either completely, thus converting the Society into a centralised Society, or partially, by merging the separate Branches in the different geographical areas into larger units (generally known as districts) for the purpose of the administration of National Health Insurance. As a consequence of changes of this nature, the total number of Branches administering the Scheme as separate financial units has fallen from about 14,000 in 1912 to less than half that number. It is not, however, a simple matter, under the Act as it stands, for changes of this kind to be effected since any single Branch has absolute autonomy and can decline to fall in with any proposed reconstitution of the Society, however strong may be the desire throughout the Society as a whole to effect that reconstitution. It has been suggested to us that some means should be provided by which the decision of the Society in cases of this kind should be made binding on all its Branches.

608. We have no desire to impair unnecessarily the autonomy which Branches at present enjoy, but we feel that some such provision is desirable (with proper safeguards) to meet the case where the general desire of a Society may be frustrated by an obstructive and insignificant minority.

609. We observe, moreover, that there is already provision in Section 40 (1) (*c*) of the Act for the converse operation—namely, the transformation of a centralised Society into a Society with Branches. We accordingly recommend that Section 40 of the Act should be amended so as to enable a Society with Branches, subject to the consent of the Minister and to compliance with such conditions as may be prescribed, to centralise either completely, or in geographical areas if the Society in a general meeting by a large majority (e.g., four-fifths) representative of its insured persons resolves to do so.

Investment of Societies' Funds.

610. The Act provides that, of the moneys belonging to Societies which are available for investment, one-half is to be retained to the credit of the Society in the National Health

Insurance Fund Investment Account, and the other half may be dealt with at the option of the Society in one of the three following ways :—

(1) It may be left in the National Health Insurance Fund Investment Account; or

(2) it may be paid over to the Society for investment by the trustees of the Society in trustee securities; or

(3) it may be invested by the Minister on behalf of the Society in such securities as the Society may select.

611. The moneys in the Investment Account are invested by the National Debt Commissioners in securities in which Savings Bank Funds may be invested and the interest is paid into the Income Account kept by the National Debt Commissioners. From time to time the National Health Insurance Joint Committee, with the approval of the Treasury, after a survey of the position determine the rate of interest to be credited to Societies in respect of their credits in the Investment Account. The prescribed rate was $3\frac{1}{4}$ per cent. up to December, 1917, 4 per cent. from that date until December, 1922, and has been $4\frac{1}{2}$ per cent. since the latter date. Any balance of interest earned over and above that credited to Societies at the prescribed rate, and any capital accretions on changes of investment go to provide a reserve for the stabilisation of the rate of interest and to protect the fund against depreciation.

612. So far as concerns the moiety of the funds available for investment which is transferable to the Societies, there is no corresponding arrangement for equalising the rates of interest, either as between Societies or as between one period and another. Within the range of securities on the trustee list, each Society makes its own investments and carries the whole of the interest receipts of each year to its Benefit Fund. Profits or losses, resulting from the sale of securities, are also carried to revenue in the year in which they arise. In the case of Branch Societies which make common investments for the Branches, the effect is the same, though the machinery is slightly different.

613. There is little difference between the ultimate results of the two methods of investment. Theoretically, the Societies might be expected to realise a somewhat higher rate of interest, owing to the wider range of securities which is open to them. Practically, the results are much the same, since the Societies have, to a very large extent, preferred to invest in Government securities of the same type as the National Debt Commissioners have selected. Differences, attributable to accounting policy, i.e., to the creation of a reserve for equalising purposes in the case of one-half only of the funds available for investment, may be disregarded in this connexion. Any apparent inferiority in the results of official investment due to this cause should be

looked upon as a merely temporary feature for which compensation will be provided at a later period. These facts must be kept in view in considering the evidence directed to the question whether any change is desirable. The evidence we have received shows that the Societies are, as a rule, more fully appreciative of the results of their own investment operations than of those of the corresponding official activities as expressed by the credits of interest at the "prescribed rate." Nevertheless, there is no general desire for change.

614. The Ancient Order of Foresters (Q. 4376-4379) have no objection to the present arrangements, though in their own investments they state that they earn 4·9 per cent. interest, with large capital appreciation. The National Amalgamated Approved Society (App. XXV, 33-34) propose no change, though they have realised similar results. The Lancashire and Cheshire Miners' Permanent Approved Society (App. XI, 31-34) suggest that wider powers of investment should be given to Societies. The Hearts of Oak Benefit Society have recommended (App. IV, 307-319; Q. 3667-3708) that Societies should be empowered to invest the whole of the moneys available for investment on the ground that the Society would gain by capital appreciation. On examination, however (Q. 7394-7449), it appeared that this Society had not improved its interest income by the rather considerable series of investment changes on which it had embarked, and had, therefore, added nothing to its real assets. It appeared to us that in these circumstances the capital appreciation in which the transactions resulted represented no such tangible advantage as to commend to us the proposition that Societies should be given control over an extended proportion of investable funds.

615. We have come, therefore, to the conclusion that no change should be made in the present arrangement under which one-half of the funds available for investment is carried to the Investment Account and dealt with in bulk by the National Debt Commissioners, the other half being made available as regards each Society, for investment by the Society itself, or at its direction, in trustee securities. This plan was adopted in 1911 as a modification of that originally proposed by the Bill, under which the whole of the accruing funds would have been invested by the National Debt Commissioners; it was the subject, therefore, of an important amendment to the Bill, and one which must have been fully considered at the time. It cannot be said to have operated to the disadvantage of the insured persons. So far, indeed, from this having been the case, it has provided opportunities of comparing alternative policies in regard to the treatment of interest income which may lead to very valuable conclusions if the experiment is allowed to continue for a sufficiently prolonged period to enable definite results to

emerge. It may be laid down as an axiom that changes in a system which at its inception was submitted to the closest scrutiny in every aspect are only to be recommended when a good case for them has been made out as the result of subsequent experience. In the present instance we must hold that no such case has been established.

616. We see no adequate reason for the adoption of the suggestion that wider powers of investment should be given to Societies, having regard to the ample range of securities available for trustee investments. Here again we must point out that the present regulations are the result of a careful study of the whole question, in this case by a body of financial experts who composed the Investments Advisory Committee set up in 1913 and whose report emphasised the sufficiency of the scope of the list of trustee securities for the investments of Approved Societies.

617. We recommend that no change be made in the provisions of Sections 70 and 71 of the 1924 Act relating to societies' powers of investment of their accumulated funds.

Allowances to Approved Societies for Expenditure on Administration.

618. We are informed that the whole question of the sums to be made available to Approved Societies for the purposes of administration was the subject of close inquiry by a Departmental Committee in 1921, and we are satisfied that the evidence we have heard on the subject is not such as to warrant any reconsideration of the matter. Apart from the general consideration to which we refer in paragraph 229 above, we are informed that the present rate of allowance is sufficient for all types of societies, and the evidence which we have received from the Approved Societies themselves would generally seem to confirm this view. The Ancient Order of Foresters (Q. 3945) think that the present rate of allowance is "sufficient without being generous." The Manchester Unity of Oddfellows (Q. 5474) think the allowance is adequate. The National Conference of Friendly Societies (Q. 10,646-10,648) "are not satisfied, but make the best of it." The Association of Approved Societies, however, express the opinion (App. XLV., 27-32; Q. 14,392-14,411) that "the amount allowed to Approved Societies for administration purposes is too low, and militates against efficiency without voluntary service," and advocate an increase to cover the reasonable expenditure of each type of Society. The Order of the Sons of Temperance (App. LXXXIX, 22-25; Q. 21,405-21,413) informed us that "when the number of members is 15,000 and over the allowance meets the requirements, and when the smaller units do not require office accommodation or permanent staff, there again the

administration allowance has been found to be sufficient." They submit, however, that the allowance is insufficient where the membership lies between 5,000 and 10,000.

619. It has been suggested by some witnesses that a variable rate of allowance should be instituted according to the size and type of Societies. For instance, the National Association of Trade Union Approved Societies (App. XCII, 144-148; Q. 22,074-22,075) point out that the rate of administration expenditure varies according to the type and size of Society. They suggest that the Ministry should be empowered to vary the amount in the case of Societies with a membership between a given minimum and maximum. They also make the specific suggestion that the allowance should be increased to 4*s.* 10*d.* per member per annum in the case of Societies with less than 50,000 members, and that an additional twopence per member should be allowed in the case of women. The Hearts of Oak Benefit Society (Q. 2972-2974) and the Order of the Sons of Temperance (Q. 21,590) also think that the rate of allowance should be varied according to the type and size of Society. We are not convinced that there is much substance in this claim. On the contrary, we see grave objections to the adoption of a differential rate of administration allowance as between different types of Societies. The adoption of such a device as we have indicated might with some justice be represented as, and it might in fact easily become a contrivance for subsidising the administration of certain forms of organisation at the cost of their own members' benefits. Health Insurance exists to promote the advantage of the insured, in whose interests it is essential that there should be throughout the whole administration of the Act a spirit of wise economy. No Society and no type of Society can claim a prescriptive right to a guaranteed existence, quite apart from any question of the cost of its administration. While inevitably in the multitude of Societies there will be differences in the cost of administration, it is, we consider, a sound principle that no Society in respect of its administration should require a sum materially in excess of that which the great bulk of other Societies find sufficient. Economy is, after all, one essential constituent of efficiency, and any type of Society which is less markedly economical than other Societies, is ultimately to be condemned as inefficient. Apart from these general considerations we do not consider that differential rates for administration allowance would in any case be defensible in a scheme subject to statutory provisions under which uniform contributions are charged; moreover, we are advised that difficulties would arise in connexion with the valuation of Societies if effect were to be given to such a suggestion. We, therefore, recommend that no change in the existing provision should be made except in respect of the matter dealt with in paragraph 242 of our Report.

Contract Administration Payments.

620. Our attention has been directed to an arrangement which exists in certain Societies whereby out of the amount available to the Society for purposes of administration a lump-sum payment is made to the parent body with which the Society is associated, and in return for that payment the parent body carries out the administration of National Health Insurance on behalf of the Society. We are informed that the arrangement is in every case expressly authorised by the rules of the Society, and that the terms of the agreement and the rates of payment are subject to annual review and are approved by the National Health Insurance Joint Committee. Although the number of Societies which have made arrangements of this kind is small, they have an aggregate membership of about 6½ millions, or nearly half the total insured population. We may quote from the evidence of Sir Walter Kinnear on the subject :—

> " We have a limited number of cases, possibly not more than a dozen in number, where a certain proportion, not the whole, of the administration allowance is paid over with the sanction of the Minister to what I might call the independent side of the organisation. As a rule we insist that the cost of certain services which are peculiar to National Health Insurance, such as medical referees, sick visitors, and matters of that kind must be paid for and retained on the Approved Society side of the organisation. But certain Societies have represented to us that they have common organisation and common staffing in the offices, and they said it would be a businesslike arrangement for us to allow a proportion of the administration allowance to be handed over to the parent body and the latter would contract with the Approved Society to give the services of their whole organisation to the benefit of the Approved Society for that sum, apart from any special services which are peculiar and can be rendered only for the purpose of National Health Insurance. That is a system which has been in force for a good many years, and I am not inclined to think it is abused. It is true that at headquarters we have no means by which we can analyse how the amount is spent, once having fixed upon a lump sum. We have simply to look at the cost of that Society as compared with the cost of other Societies, and endeavour as best we can to decide whether that lump sum which is agreed upon is a fair and equitable amount. I do not think the system has been abused; I do not think that the Society is placed at any serious disadvantage by the arrangements; but, of course, it is open to the criticism that there is a very considerable expenditure over which we have no supervision or no auditorial rights." (Q. 23,527.)

621. We recognise that an arrangement of this kind may have some advantages from the business point of view, and we do not suggest that it should be prohibited, provided that the interests of the insured members of the Societies are properly safeguarded. The amounts of the payments made by some Societies under arrangements of the kind in question are very considerable. In the case of the Prudential Approved Societies, sums totalling nearly £700,000 a year are paid out of the State Insurance funds to the Prudential Assurance Company, and these payments appear as single items in the accounts of the Approved Societies as submitted to the Treasury Auditor and to the insured members, no details being available of the manner in which the money is applied by the Company. We feel, therefore, that a serious responsibility rests upon the Central Departments to scrutinise closely the terms and conditions of any proposed arrangement of this kind before giving their approval. The National Amalgamated Approved Society informed us (Q. 4812-4826) that the Companies with which the Society contracts make no profit out of the arrangement, while the National Sailors' and Firemen's Union (App. XLIII, 26; Q. 13,990. 14,006-14,008) stated that the Trade Union actually lost on the arrangement. We should have expected that very large Societies having at their disposal for the purposes of the administration of National Health Insurance all the machinery of a huge business undertaking, would have been able to carry out their National Insurance administration at an appreciably lower cost per head of membership than Approved Societies in general, and we are surprised to find that this is not in fact the case. We questioned witnesses representing the Prudential Approved Societies on the subject, and it appeared from their evidence (Q. 9750-9765) that, although a considerable reduction had recently been effected in the overhead charges of the parent Company as a result of certain measures of reorganisation, that reduction had not been reflected in the amount paid to the Company by the Approved Societies. We feel that it is only reasonable that the insured members of the Societies should receive some compensating advantage under arrangements of this character in return for their surrender of their ordinary right of scrutinising and criticising the detailed expenditure of the Society's funds for purposes of administration, and we think that before giving their approval to such arrangements, the Central Departments should take all possible steps to satisfy themselves that this will be secured.

622. Our attention was also drawn (*Kinnear*, Q. 23,542) to another type of case, in which an Approved Society pass over to the secretary the bulk of the money available for purposes of administration, and the secretary in return undertakes to contract for the whole administrative work of the Society, the persons by whom the work is undertaken being appointed and paid by himself and not being responsible to the Committee of Management or the

members of the Society. We think that arrangements of this kind are open to serious objection and are not in the interests of good administration. We consider that the Central Departments should have power to bring any such arrangements to an end by requiring the amendment of any rule which purports to authorise them.

SECTION K—OTHER MISCELLANEOUS QUESTIONS.

Workmen's Compensation.

623. Inasmuch as the Workmen's Compensation Act had already made provision for payments being made to insured persons in respect of certain types of incapacity (those, namely, due to accidents arising out of and in the course of their employment), it was possible, and indeed desirable, in framing the Insurance Act to regard such illnesses as being already covered and accordingly to disentitle an insured person from benefits under the Act in respect of incapacity already compensated under other statutory provision. Moreover, it was clearly expedient to make provision to secure as far as possible that claims which were met by the employers in the form of payment of compensation should not be the subject also of demands on the Health Insurance Funds to which employers contribute.

624. The statutory provisions governing the relations between workmen's compensation and payment of benefit under the Health Insurance Scheme are contained in Section 16 of the Act and are briefly summarised in the following paragraphs.

625. An insured person is not entitled to sickness or disablement benefit in respect of any incapacity for which he is entitled, under the Workmen's Compensation Act, to receive compensation of a value equal to or greater than that of the benefit. An employer is required to notify to the Minister, or to the Approved Society concerned, any agreement for the payment of compensation of less than 15*s.* a week, or for the redemption of weekly payments by a lump sum. An Approved Society is entitled to help its members to obtain the compensation to which they appear to be entitled, and is authorised to make advances of sickness or disablement benefit pending the settlement of the claim for compensation and to recover any amounts so advanced from the compensation awarded.

626. The evidence which we have receives satisfies us that these provisions are working satisfactorily, and that it is only in a few minor details that any amendment is required. It was suggested to us by a number of witnesses that workmen's compensation should be merged in the Scheme of National Health

Insurance. We examined Sir Walter Kinnear on this proposal, and we give the following extract from his reply : —

> " . . . The Department considers that it would not be practicable or desirable to merge the Workmen's Compensation Scheme in the Health Insurance Scheme. . . . The risks covered by the Workmen's Compensation Act vary very greatly in various trades. These risks entail considerable variation in the rates of premium as between different occupations and a frequent revision of rates according to claim experience. I suggest that such a system could not be worked in conjunction with a general scheme of insurance based on flat contributions. If a flat rate of contribution were charged, it is suggested that such a system would be inequitable to the trades carrying the lighter risks, and would in any case remove from employers the incentive which at present exists to reduce the risk of accidents and thus secure a reduction in their premiums. In any case, the Department considers that it would not be practicable for Approved Societies organised on their present lines to administer workmen's compensation insurance. The workers contribute a substantial proportion of the contributions to the funds of the Approved Societies, and the Act provides for those Societies being under the absolute control of their members. If on the valuation of a Society's funds a deficiency is found, the members may be rendered liable to an increase in their contributions or a reduction in their benefits. In workmen's compensation insurance the whole of the premiums are contributed by the employers, who alone would be affected by any excess of claims and expenses over income. The working of such a scheme could not be entrusted to Societies controlled solely by the workers. Moreover, the financial liabilities of workmen's compensation insurance are more onerous than could with prudence be undertaken by many of the 9,000 Approved Societies and Branches throughout the country, and if these liabilities were pooled in a central fund, I submit to the Commission that the Societies could not retain that independence in government and administration which characterises their operations at the present time." (Q. 23,461.)

627. We consider that the arguments advanced by Sir Walter Kinnear are conclusive on this subject, and we cannot recommend that the Health Insurance Scheme should be widened to cover the liability now provided under the Workmen's Compensation Acts.

628. The National Association of Trade Union Approved Societies (App. XCII, 117-120) called our attention to cases in which insured persons who are incapacitated by accident

for which compensation is payable are unable to obtain compensation by reason of the employer or other person responsible being unable to meet his liability, and are at the same time unable, by reason of the disentitling provisions of the National Health Insurance Act, to obtain any benefit from their Approved Societies. The Association suggested that in order to meet the very unsatisfactory position which thus arises, the Act should provide that " unless an insured person unreasonably neglects or refuses to enforce his claim, benefit should be payable if compensation is not recovered."

629. We have no reason to think that cases of this kind are numerous as they are confined to those in which an insured person has established his title to compensation prior to the employer becoming insolvent. Moreover, even in such cases, the employed person's claim to compensation ranks preferentially on the assets of the employer. At the same time, though the cases may be few they involve real hardship, and in our opinion the present position cannot be justified. We, therefore, recommend that provision should be made whereby in any case where an award of compensation or damages has been made in favour of an insured person, and the payment cannot be recovered by reason of the insolvency of the employer or other person liable, sickness or disablement benefit should then become payable.

630. The only other matter in connexion with workmen's compensation on which we desire to make a recommendation relates to the notification of agreements. On this point we may quote from a question addressed to Sir Walter Kinnear and his reply :

" Are you satisfied with the present arrangements under which Societies are notified of cases in which their members become entitled to claim compensation under the Workmen's Compensation Act?—Under the Workmen's Compensation Act, 1923, and the Rules of Court made under that Act, Approved Societies are now recognised as interested parties in any agreements for the payment of a lump sum, and arrangements have been made for the notification of such agreements by the Registrars of the County Courts to the Approved Society concerned. These arrangements are working well and should enable a Society to receive prompt information of the cases about which it is important that it should know. There is still in force Section 16 (1) (*c*) of the Act, which requires the employer or insurance company—in fact it is really the insurance company—to forward a notification to the Ministry or Society where there is an agreement for compensation at less than 15*s*. a week, or for redemption of a weekly payment by a lump sum. This provision has never been of much use, as out of thousands of cases notified it has not been possible to get the information to the Society in more than a minute fraction of cases. As the cases of lump sum payments are now covered otherwise, as the result of the passing of the Workmen's Compensation Act, 1923, and the cases of weekly payments at less than 15s. a week are relatively unimportant, I suggest to the Commission that Section 16 (1) (*c*) of the Act might now be repealed." (Q. 23,462.)

631. We concur in the suggestion made to us on this point and recommend accordingly that Section 16 (1) (*c*) of the Act should be repealed.

Inquiries into Excessive Sickness.

632. When the Insurance Act was originally passed few sections attracted more attention than that which was designed to establish machinery whereby financial liability might be fixed on a local authority or an employer, held to have been guilty of default leading to unsatisfactory health conditions and consequent excessive payments of sickness or disablement benefit. This was regarded as establishing a hopeful new principle whereby the consequences of neglect might be brought home to the negligent with beneficial results to the public health at large.

633. Section 107 of the present Act lays down the procedure to be followed where an Approved Society or Insurance Committee makes an allegation that excessive expenditure on sickness and disablement benefits is attributable to some default on the part of a Local Authority or an employer. The Section falls naturally into two parts. In the first place it provides machinery for instituting an investigation to determine whether the Society's allegation of unsatisfactory conditions is well founded; and secondly, it enacts that where as a result of such investigation, it is found that the unsatisfactory conditions do in fact exist and have been the cause of excessive benefit expenditure, a penalty shall be imposed on the responsible Local Authority or employer by requiring them to pay to the Society the estimated amount of the excess expenditure due to their default.

634. We have been informed in evidence (*Brock*, Q. 1470, 1491-1498) that the Section has not proved to be workable, and we understand that there are two outstanding difficulties in giving effect to its provisions :—

(1) As Approved Societies are seldom organised on a geographical basis, it is very difficult, if not impossible, to establish from their records the sickness experience among insured persons in a particular locality.

(2) Even if it were possible to establish the experience of a particular locality it would not be possible to disentangle

that proportion of the excessive sickness which could properly be attributed to any particular cause from among the many which might be operative, and so to enforce the penalty contemplated in the Section.

635. A further difficulty, we are advised, would arise in the ascertainment of the normal sickness experience of any area, and without such data it would not, of course, be possible to calculate the amount of the excess.

636. A few witnesses have given evidence before us as to the possible utility of the section in the future. Sir Wm. Glyn Jones refers (Q. 24,423) to the high intentions underlying the section, and suggests that work of the nature contemplated could usefully be undertaken by the local authorities. He also suggests that the cost of the work should be borne by rates and taxes, and that the Insurance medical records should be used for this purpose. The National Association of Trade Union Approved Societies (App. XCII, 122; Q. 22,056) suggest that the section should be retained as it may prove to be more practicable as the Scheme of National Health Insurance develops. The British Medical Association suggest (App. XLVII, 54; Q. 15,313, 15,317-15,323) that Approved Societies should be required to keep records on a territorial basis so as to assist in any investigation into prevalent illnesses in any particular area.

637. While we are convinced that the Section as it stands is incapable of effective application, we think that insurance data would undoubtedly prove of great value in connexion with any investigation into local health conditions, provided that any power to make inquiry into the causes of excessive sickness were exercised by the body responsible for the local administration of medical benefit and other health services.

638. We have accordingly come to the conclusion that the penal provisions directed against the local authority or the employer are useless as a means to further the end which the section has in view and that they should accordingly be eliminated. But we think that the bodies responsible for the local administration of Medical Benefit to insured persons should be given power to institute inquiry into cases of excessive sickness brought to their notice, and that for this purpose they should have access to the medical records collected under the Health Insurance Scheme.

639. In our opinion such inquiries need not necessarily be formal in character and indeed they would probably gain in fruitfulness by remaining informal. We consider that the powers suggested should merely be among the normal functions of the authority.

Medical Institutions.

640. While the Insurance Act contemplated that Medical Benefit should normally be provided by medical practitioners under contract with Insurance Committees, it provided for two possible deviations from the standard arrangements. In the first place it authorised Insurance Committees where they saw fit, to allow insured persons to make their own arrangements for receiving Medical Benefit, and where the circumstances were sufficiently exceptional to justify the adoption of this course a contribution was made towards defraying the cost of the Medical Benefit so obtained. The second exception related to medical institutions which had been providing medical attendance to the working classes in the past, and provision was made, safeguarding existing rights, whereby under certain conditions these institutions might be incorporated in the machinery for providing Medical Benefit. It is with the second of these exceptions that we are here concerned.

641. Under Section 15 (4) of the 1911 Act such systems or institutions for the provision of medical attendance and treatment, as were in existence at the date of the passing of the Act, might be approved by an Insurance Committee and the Department for the purpose of providing Medical Benefit. Insured persons who were members of these approved institutions might then receive their medical benefit through the institution, the actual cost of the treatment, or the capitation fees in respect of members so treated, whichever is the less, being paid to the institution out of insurance funds. The majority of these institutions are bodies which were formed by associations of the Friendly Societies for the purpose of providing medical attention and treatment to their members prior to the passing of the 1911 Act.

642. We are informed (*Brock and Smith Whitaker*, Q. 24,009-24,012; *British Medical Association*, Q. 15,222) that the treatment given to members of these institutions is as a rule inferior in quality to that provided under the normal panel arrangements, and we are also given to understand (*British Medical Association*, Q. 15,221; *Brock*, Q. 24,009) that administration and control by lay committees has proved in many cases to be ineffective. Any disciplinary action taken by Insurance Committees following upon complaints made by members of the Institutions cannot be brought to bear directly on the individual doctors responsible as these are the servants of the institutions. The Minister has power to withdraw approval in any case in which he is not satisfied that an institution is conducted in such a manner as to comply with the terms of service of insurance doctors, but this would not be an appropriate penalty in cases of complaint by an insured

person, and we are informed that so far there has been no case in which the penalty has been imposed.

643. After careful consideration of all the evidence before us we think that this method of providing medical attention and treatment is an anomalous feature in a scheme of which the cardinal principle is a contract between Insurance Committees on the one hand and individual independent doctors on the other, and that it introduces lay control over professional men in an undesirable form. On the other hand we consider it necessary to have regard to the recognition by Parliament of these institutions at the time when the scheme was introduced, and to the fact that there is no evidence of failure sufficient to justify a recommendation on our part that the recognition of the institutions for the purposes specified should now be withdrawn. The original Act, it will have been noted, restricted recognition to those institutions then in existence, clearly designing that this method of providing Medical Benefit should be exceptional and should be regarded as an unavoidable inheritance from the past. We do not consider either that that decision should be reversed, or that power should now be given to recognise further institutions beyond a small group of a special type, to which we refer in paragraph 648 below. On the question of the control over the salaried doctors in the institutions, we feel that that must necessarily continue to be exercised by their employers who are the committees of the institutions, though at the same time we think that no rule of an institution should purport to debar a member of the institution from carrying an appeal as to his medical treatment to the Insurance Committee in the area.

644. Our attention has been directed to the peculiar position of the medical institutions in South Wales specially set up under Section 24 (3) of the 1924 Act for the provision of medical treatment and attendance to persons who are allowed to make their own arrangements for Medical Benefit.

645. A distinction is to be drawn between those medical institutions which were in existence before the date of the passing of the original Act and which have been approved under Section 15 (4) of that Act (Section 24 (4) of the 1924 Act), and those new institutions which, although they are not entitled to recognition under Section 24 (4), are set up for the provision of medical benefit under what is known as " collective own arrangements " allowed by Insurance Committees under Section 24 (3). In these cases the Insurance Committees in effect allow insured persons to make their own arrangements to receive medical benefit through an institution which is debarred from recognition as such under the Act. With regard to the latter type of institution, the British Medical Association, in their evidence, objected to the fact that they were under lay control, and stated (Q. 15,222) that " their influence has been very detrimental indeed to the

medical service given to the public in the colliery areas of South Wales." Mr. Eynon Lewis, representing the Glamorgan Insurance Committee, admitted (Q. 13,289) that " there may be a difference in the quality of the service of a practitioner which an organisation approved under Section 24 (3) may obtain as compared with an institution approved under Section 24 (4) because of the ban of the British Medical Association."

646. After careful consideration of all the evidence we have come to the conclusion that organisations recognised under Section 24 (3) of the Act are open to objection inasmuch as their existence is, in effect, an evasion of section 24 (4) of the Act and an improper use of Section 24 (3), the real purpose of which we conceive to have been the provision for individual cases and such special types as nurses in hospitals. The concession granted by section 24 (4) was definitely limited to those institutions which were actually in existence at the date on which the original Act was passed. The recognition of new institutions specially set up for the purpose of " collective own arrangements " cannot, in our view, be regarded as consistent with the limiting provisions of Section 24 (4), which would indeed be stultified by any extension of this procedure.

647. We therefore recommend that Section 24 (3) of the Act should be amended so as to debar any Insurance Committee, or Local Authority succeeding to its powers, from sanctioning the use of any organisation for the purpose of " collective own arrangements," and to provide that the provisions of the Subsection shall not be applied otherwise than to individual insured persons. We wish, however, to make it clear that our recommendation does not apply to cases in which nurses or other resident employees of hospitals normally receive medical treatment and attendance from the medical staffs of the hospitals in accordance with the terms of their employment.

648. With regard to the existing institutions which have already received recognition under Section 24 (3) we do not suggest that such recognition should be withdrawn, but recommend that approval should be extended to them under Section 24 (4), and that such amendment of Section 24 (4) as may be necessary to enable this to be done should be effected.

Dispensing of Drugs for Insured Persons.

649. It is provided by Section 24 (5) of the Act that all medicines supplied to insured persons shall be dispensed either by, or under the direct supervision of, a registered pharmacist or by a person who for three years immediately before the passing of the 1911 Act acted as a dispenser to a duly qualified medical practitioner or a public institution.

650. It was suggested to us in evidence given on behalf of the Society of Apothecaries of London (App. LXXXVI; Q. 21,218-21,236) that the section referred to should be amended so as to provide that those persons who hold a certificate of the Society as dispenser, and who have, in addition, had three years' practical experience, should be recognised as "qualified to exercise any function required of a dispenser in institutions, hospitals, dispensaries and Poor Law infirmaries, and to contract with Insurance Committees for the payment for medicines supplied to panel patients in those institutions." The Society contend that their training and examination secure an adequate test of ability to dispense accurately and successfully. The Pharmaceutical Society of Great Britain, on the other hand, state (App. CXXVI) that in their view "any reduction in the standard of qualification required of persons undertaking dispensing for insured persons would be a retrograde step," and refer to the fact that a similar claim made by the Society of Apothecaries in 1913 was exhaustively considered by a Departmental Committee and was rejected.

651. We examined the official witnesses on the subject (Q. 24,005-24,007), and quote from a reply given by Mr. Brock :—

> "We have to distinguish between the right to dispense in the literal sense of the term and the right to enter into arrangements with Insurance Committees for the supply of drugs to insured persons. In our view it would not be desirable to relax the present statutory requirement prohibiting arrangements for dispensing medicines being made with persons other than qualified pharmacists, even though such medicines are not supplied in open shop. The period of training required for the certificate of the Society of Apothecaries has been raised from six to nine months, but the standard of technical training is still not high, and it would be a retrograde step to amend the Act so as to allow persons holding this qualification only to contract for the supply of medicines."

652. We have given careful consideration to this question and have come to the conclusion that it is not desirable in the interests of insured persons to lower the standard of qualification required for persons who may be allowed to dispense medicines provided under the Insurance Scheme. The evidence given before us has left no doubt in our minds that the qualification of the holders of the Apothecaries' Assistants' Certificates is inferior to that of a registered pharmacist, and we accordingly recommend that no alteration should be made in the present requirement.

Arrears of Contributions.

653. The present position governing the effect of arrears of contributions is set out at length in paragraphs 103-110 of Section A of Appendix I, to our Minutes of Evidence and it is not, therefore, necessary to enter into any detail here on the subject. The absence of a contribution in respect of any particular week in the case of an employed contributor may be due to any of the following causes :—

(1) absence from work owing to sickness;
(2) absence from work owing to genuine inability to obtain employment;
(3) voluntary abstention from work;
(4) the taking up of some non-insurable occupation.

Arrears due to the first of these causes do not involve any penalty but in each of the other three cases, unless the arrears are redeemed by payment of the appropriate sum within the time allowed for the purpose, an insured person with arrears exceeding four during the year is subject to a penalty in the form of a reduction or suspension of the cash benefits. The title to medical benefit is not now affected by arrears so long as the insured person remains in insurance. Special temporary arrangements have been made under the Prolongation of Insurance Act and by related provision in the Arrears Regulations to mitigate the consequences of arrears in the case of insured persons who have had prolonged periods of unemployment during the present trade depression.

654. It has been represented to us in evidence that it is illogical that penalties in the form of a reduction or suspension of health insurance benefits should be imposed on insured persons who have been so unfortunate as to suffer from genuine unemployment, particularly having regard to the fact that under the Unemployment Insurance Scheme contributions are compulsorily payable against the contingency of unemployment and benefit is paid when that contingency arises. These schemes are alike authorised and enforced by the State; yet the circumstance which establishes the insured person's title to benefit under one scheme involves a penalty under the other. We are impressed by the force of these arguments, and we think that a fundamental distinction should be recognised between arrears arising from genuine inability to obtain work and those arising from voluntary abstention from work, or from employment in some non-insurable occupation. While arrears due to the last two causes must necessarily and properly involve the imposition of penalties, we do not consider that any penalty should be imposed in respect of the non-payment of a Health Insurance contribution for a week during which an insured person was genuinely seeking for work but unable to obtain it. We have received evidence from the Ministry of Labour on the subject (App. CII; Q. 23,290-23,395), and we understand that the Ministry are prepared to accept the general principle which we have set out above, but at the same time think it necessary to point out the difficulties of devising any satisfactory machinery for proving

that the absence of a contribution for a particular week was, in fact, due to inability to obtain employment.

655. We feel, however, that these difficulties to which Mr. Price, a Principal Assistant Secretary of the Ministry of Labour, alluded in his evidence should not prove insuperable and we, therefore, recommend that for the purposes of the Health Insurance Scheme, any week in respect of which an employed contributor can produce satisfactory evidence of genuine inability to obtain work should be counted as a week for which a contribution was paid. We are not in a position to make detailed recommendations as to the machinery by which evidence of genuine unemployment should be obtained. We understand, however, that the Ministry of Labour is sympathetically considering the question and that a satisfactory solution of the problems to which it gives rise may be expected to result from consultation between the two Departments, so far as concerns the large majority of persons who are insured under both the Health and Unemployment Schemes.

656. If arrears due to genuine unemployment were excused in accordance with our recommendation, it should result in great simplification in the administration of National Health Insurance and a great saving of work to Approved Societies. If the arrears involving penalties could then be limited to those due to voluntary abstention from work or engagement in some non-insurable occupation, the system of penalties for arrears might be simplified by the adoption of one scale for employed and voluntary contributors.

Payments to Charitable Institutions.

657. The original intention of Section 21 of the 1911 Act (now Section 26 of the Act of 1924) was to enable Approved Societies and Insurance Committees without any question of receiving an equivalent return to make subscriptions or donations to hospitals or charitable institutions which serve the interests of the public health.

658. We have had evidence (*Kinnear*, Q. 853; *Ministry of Health*, App. I, B, 247; *Middleton*, App. CI. 34) that the Section is now used by some Societies for the purpose of providing benefits in the nature of additional benefits to all members, whether qualified to receive additional benefits or not, by paying fairly large sums in anticipation of surpluses to institutions specially set up to receive such payments.

659. These institutions are in some cases little more than the Societies themselves under other names, and in other cases bodies set up by enterprising officials of Societies, and with very little, if any, income from any source other than payments out of the Health Insurance funds of contributing Societies. These payments are made in bulk to the Institutions, and no details are

available to the Government Auditor as to the manner in which the sums are used by the Institutions. As an illustration of the former type we may instance the United Women's Benevolent Association (see *Gordon*, App. XIII 28, 30; *United Women's Insurance Society*, App. XXIV 22-31), and of the latter type the outstanding example is the National Insurance Beneficent Society, a body from whom we received some interesting evidence (App. XVIII; Q. 8814-9208). This body carries on its work not only under Section 26 but also as an agent for Societies in administering treatment benefits under approved schemes of additional benefits, and has adopted a two-sided constitution the full purpose of which we are not altogether able to appreciate.

660. We are informed by the Ministry of Health (App. I, B, 229-252; *Kinnear*, Q. 843-857, 23,603-23,615) that in 1922 a sum of £10,000 was paid to charitable institutions by 138 centralised Societies, and that in 1923 the sum so paid was over £30,000 including a payment by one Society of over £11,500. The Ministry also informs us that the section is open to objection on the grounds (1) that it is used by some Societies to provide benefits in the nature of additional treatment benefits to members immediately on transfer from other Societies, and so encourages unfair competition; (2) that inasmuch as the contribution contains no margin for payments of this nature, the financial stability of Societies may be endangered; and (3) that it is a violation of the spirit of the provision that additional benefits shall not be distributed among members other than those entitled thereto by statute. It was therefore suggested to us that the section should be repealed and that payments to charitable institutions should not be made except out of surplus funds. The Scottish Board of Health, on the other hand, maintain (*Leishman*, Q. 24,248-24,293) that so far as Scotland is concerned the section has been cautiously and reasonably used, and suggest that it should be retained in its present form. The Ancient Order of Foresters informed us (Q. 4267) that the section was useful in the early days of the Act, but that in view of the almost universal provision of additional benefits it has outlived its usefulness. The National Association of Trade Union Approved Societies (App. XCII, 116; Q. 22,053-22,054) contend that the section permits of abuse and encourages unsound competition between Societies. They suggest that it should be amended so as to make subscriptions or donations over a certain prescribed sum per head of the membership in any year subject to the consent of the Central Departments. Mr. Middleton, giving evidence on behalf of the National Insurance Audit Department, informed us (App. CI. 33-38) that "the section, in express terms, confers absolute discretion upon the Society in the matter of amount of such subscriptions, and an auditor is therefore precluded from criticising the amount of the payments made under these powers, provided always that the payments appear to be

made in exercise of that power and do not appear to be a flagrant abuse thereof." He also states that "in view of the terms of the section, auditors have been unable to raise objection to subscriptions on the ground of absence of consideration or because an inadequate return was either contracted for or actually received for the payment."

661. Mr. Alban Gordon (App. XIII, 30; Q. 7733, 7813-7818) suggests that the section should be retained, but that in order to prevent abuse, it might be amended to provide that payments in excess of a prescribed sum per head of the membership in any year shall be subject to the consent of the Department. The United Women's Insurance Society, of which Mr. Alban Gordon is the Secretary (App. XXIV, 11-12; Q. 10,183-10,185), make a similar recommendation. This Society also inform us that during the years 1914-1924 they spent a sum of no less than £51,500 under the section. The National Federation of Rural Approved Societies (App. XXIX, 20; Q. 11,687-11,690) and the Scottish Rural Workers' Approved Society (Q. 11,781-11,788) are opposed to the repeal of the section, which they say has proved useful for providing treatment and appliances in necessitous cases. The Joint Committee of Approved Societies (App. XIV, 35, 91-108; Q. 8726-8728) also think that the section should be allowed to stand. They contend that it has not endangered the financial position of Societies and is useful for meeting cases of special need.

662. The use made of the section has undoubtedly gone far beyond the original intention of the legislature, and while we recognise the motives which originally prompted Societies to provide benefits in the manner indicated, we consider that any need for such payments has now passed, seeing that the benefits may be provided as additional benefits.

663. We consider, however, that the power vested in Societies to make small subscriptions or donations to hospitals and similar charitable institutions should be retained, but that any such payments should not be made except out of realised surpluses, and that they should be made under some degree of central control.

664. We therefore recommend that the Section should be repealed, and that provision should be made whereby a Society may, when formulating a scheme of additional benefits, allocate a specific sum out of the disposable surplus for the purpose of making payments to charitable institutions, this provision to be submitted as part of the Scheme and to be subject to the same scrutiny and control by the Central Department as are the proposals for additional benefits. We also think it desirable to define in fairly precise terms what constitutes a charitable institution. We do not consider that any institution should be eligible to receive payments unless it derives a substantial part

of its annual income from sources other than public funds and payments out of the State funds of Approved Societies.

665. We suggest that the power conferred by the section on Insurance Committees should be withdrawn as they have no funds available for this purpose.

SECTION L.—AUDIT OF ACCOUNTS.

666. We conclude this Chapter with a reference to the arrangements for audit of the accounts of Approved Societies and Insurance Committees. Though we deal with this matter briefly we do not underrate the great importance of strict and continuous supervision of the accounting of the numerous and highly diversified bodies which administer the Scheme. The question of audit only becomes prominent when misappropriation or serious negligence arises. Nevertheless, efficient audit is one of the most important elements in the financial structure of a Scheme of this character.

Results of the Audit.

667. The arrangements for audit, and the results which have emerged during the operation of the scheme are fully described in the statement which has been submitted to us by the National Insurance Audit Department (App. CI). That statement has been supplemented by a considerable measure of oral examination (Q. 23,209-23,289).

668. The evidence goes to show that, in spite of the inevitable complexity of the accounting system and the lack of professional training among the officers of many of the smaller units, the accounts are, on the whole, kept in a very satisfactory manner, and that a reasonable and increasing compliance with the many regulations of the Central Departments is secured. The following table from Appendix CI, shows a satisfactory and greatly improving state of affairs in the matter of the submission of accounts of Societies to the scrutiny of the auditors :—

—	Societies.			Branches.		
	Number then coming under audit.	Number of non-compliance Special Reports.	Per cent.	Number then coming under audit.	Number of non-compliance Special Reports.	Per cent.
Year ended : 31st December, 1916	2,078	133	6·40	13,455	568	4·22
" " 1917	1,842	97	5·27	11,669	493	4·22
" " 1918	1,706	84	4·92	11,123	546	4·91
" " 1919	1,634	64	3·92	10,754	454	4·22
" " 1920	1,567	52	3·32	9,868	377	3·82
" " 1921	1,496	39	2·61	8,942	377	4·22
" " 1922	1,365	53	3·88	8,463	343	4·05
" " 1923	1,264	46	3·64	8,093	175	2·16
" " 1924	1,240	31	2·50	7,914	229	2·89

669. In the same statement we are told that, when regard is had to the aggregate amount involved in the annual transactions with State Insurance funds, the amount adversely reported upon is almost negligible. In 1924, on an expenditure of £19,000,000 audited in that year only £3,878 was thus reported, a rate of 4*s*. per £1,000. This figure shows, we think, reasonable ground for feeling that the accounting of Approved Societies is performed with honesty and accuracy.

670. The cases of fraud or failure in Insurance Committees' accounts are also few in number, and we think that that side also of the financial machinery may be regarded with satisfaction.

Employment of Professional Auditors.

671. In connexion with this branch of the work, one witness, Mr. John Reid, speaking on behalf of the Chartered Accountants of Scotland, placed before us suggestions directed to a fundamental change in the system of audit. (App. LXXIX; Q. 20,342-20,534.) The provisions of the original Act of 1911 required that every Approved Society and every branch of an Approved Society should submit its accounts to audit by auditors to be appointed by the Treasury (Section 35), and there was a similar requirement in the case of the accounts of Insurance Committees (Section 60). So far as the express provisions of the Act are concerned, it would therefore have been possible to adopt the procedure which in fact governs the audit of accounts of Friendly Societies under the Friendly Societies Act, whereby, unless the alternative of a lay audit is adopted, the audit is made by a person selected from a list of professional auditors drawn up by the Treasury. In fact, however, a special Audit Department was set up for the purposes of National Health Insurance so that the audit was conducted by civil servants and not by auditors or accountants engaged in ordinary professional practice. The establishment of such a department, it will be observed, was consistent with, although not required by, the provisions of the original Act.

672. The point urged on our notice by the Chartered Accountants of Scotland was, briefly, that the disadvantages inherent in the present system are so great that the National Insurance Audit Department should be abolished and arrangements made for the work to be done by professional auditors as part of their ordinary practice.

673. In considering this question we are not a little influenced by the fact that the determination to establish a full-time service was not arrived at hastily or without mature deliberation. On the contrary it was only after carefully weighing the expedience of adopting other methods that the Inter-departmental Committee of 1912 recommended the adoption of the system now in

operation. Mr. Middleton, the Acting Chief Auditor, drew our attention to the terms of that Committee's conclusions, and we think it desirable to quote the relevant passage as it states concisely the reasons which is 1912 were regarded as justifying, and indeed necessitating, the establishment of a separate department manned by full-time officers :—

> "We find ourselves, however, strongly in favour of the employment of a whole-time staff for, at any rate, the great bulk of the work. The volume of work will be very great, and of a character at once uniform and highly specialised. It must be borne in mind also that at the inception of a new scheme of so far-reaching a nature many novel and complicated problems will arise, in dealing with which it is essential to avoid divergency of practice. The audit staff will have to be familiar with the uniform system of accounts which the Commissioners will have to prescribe, and must be made available for the purpose of giving advice and assistance generally to the various Societies in accounting matters where they so desire. We are convinced, therefore, that the appointment of a whole-time staff would not only be the most efficient but also the most economical method of meeting the immediate requirements of the situation." (*See* Q. 23,217.)

674. In essence we are satisfied that these considerations are for the most part as valid to-day as ever, and there is the further point, not to be overlooked, that an immeasurably stronger case would be required to abolish, in favour of professional audit, a system which has operated with success for 13 years than would have been necessary to justify the adoption of professional audit at a time when the field was clear. It is still true and always will be true, so far as can be foreseen, that the volume of work is "very great and of a character at once uniform and highly specialised," and where these conditions are satisfied there will, to our minds, be a *primâ facie* presumption in favour of the work being done by specialists such as are created by a full-time service rather than by professional auditors in private practice, whose wider experience of affairs at large would be a doubtful compensation for that familiarity with the work which total immersion in the complexities of the Insurance Act can alone bring.

675. Having said so much, it is perhaps unnecessary to consider in detail how much weight should properly be attached to the various considerations advanced in condemnation of the present system. But to some of these we may advert, as they appear in part to rest on a misapprehension. The delay in completing the audit of accounts which was placed in the forefront of the indictment is, we are satisfied, more apparent than real, and so far as it exists is due largely to the peculiar nature of the

transactions under the Health Insurance Act. In saying this we must not be taken as implying that delay is not a grievous fault: but we feel that such delay as exists would be manifested under any circumstances. The delay which exists is in giving the final certificate, occasioned by the fact that certain figures which must appear in the accounts can only be arrived at retrospectively, as in the determination of the sum available for administration which depends on a mean count of the membership. But delay in giving the final certificate need not, and does not involve a corresponding delay in scrutinising the transactions of Societies. It does not, therefore, operate to encourage, as was suggested, the possibility of undetected fraud.

676. Nor are we satisfied that the system is an unduly expensive one. A comparison was instituted which was designed to show that on the scale of fees approved by the Treasury for similar work in the case of Friendly Societies, the work of the Audit Department could be done at approximately one-eighth of its present cost (*Reid*, Q. 20,364). But this comparison is vitiated by overlooking the fact that the Treasury Scale is not merely apportioned to expenditure but provides for a minimum fee of £3 no matter how small the unit. In considering the Health Insurance Scheme where, especially in Branch Societies, there is a large number of very small units, it is obvious that this fact is highly relevant in making any comparison, and indeed when allowance is made for the effect of the varying provisions of the Treasury scale, the comparison is by no means unfavourable to the Audit Department on the ground of expense (*Middleton*, Q. 23,220).

Qualifications of Official Auditors.

677. To one other point, that of the professional qualification of the Audit Staff, a brief reference may be permissible. It is almost unnecessary to disclaim the suggestion that the existence of the Audit Department is attributable to the fact that the accounting system under the Insurance Act is so intricate that no ordinary professional accountant could understand it (App. LXXIX, 2). Intricacy of accounts is obviously a reason for entrusting the work of audit to men of high professional skill, and we consider it important that the staff of the Audit Department should comprise as large a proportion as practicable of men with professional qualifications. When the Audit Department was established, a considerable number of those recruited were men with professional qualifications, and at present, as we are informed, the staff contains 38 Chartered Accountants and 61 Incorporated Accountants (*Middleton*, Q. 23,223-23,224). At present, however, men with professional training or experience are not being recruited. These men receive "an intensive training. It is not as broad as the professional qualification. It

is not required to be so broad, but it is very intensive." (*Middleton*, Q. 23,234.) Moreover, they are encouraged, and many of them in fact prepare themselves, to take the Incorporated Accountants' examinations. This is as it should be, but it is perhaps a matter for consideration whether the encouragement might not be more encouraging, or alternatively more imperative. Accountancy is after all a profession, and on general grounds it is desirable that those who in the service of the Government do work which is proper to any profession, should be professionally qualified. It may be that the "intensive training" which the young and unqualified auditor receives may make him within his own narrow plot as useful as a qualified accountant; but we feel that if a professional qualification is of any value, its attainment should enable the holder to bring to the discharge of his duties a wider outlook which, even if only in undefined ways, would promote the efficiency of the service. Nor in this matter do we think it right to overlook the increased respect with which the public at large (whether ignorantly or not is irrelevant) would probably regard men professionally qualified to do professional work.

678. In summary, therefore, we do not recommend any change in the existing system of auditing the accounts of Approved Societies and Insurance Committees, but we consider that every effort should be made to keep the proportion of qualified men on the staff at as high a level as is practicable.