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THE CO-OPERATIVE INSURANCE IN JAPAN

Kenji Sono

Insurance, in my definition, is an economic system through which many persons are supplied the means for economic security by the funds which they contribute themselves in small sums called premiums which are computed rationally, and utilize them mutually when they need. It may be classified, with respect to its main features, as either (1) individual or social insurance, (2) personal or property insurance, (3) voluntary or compulsory insurance, (4) domestic or business insurance, etc.

However, another type of security system, named co-operative or mutual-aid insurance, has developed chiefly in the rural area with similar aims to proper insurance as defined above. Some argue that the distinction between the two types of insurance lies in the difference of structures and in the qualifications of partnership or whether the members included are specific or not. But I should like to say that these features are not to be deemed as essentials. The characteristics of both should be found in the method of computing premiums.

The co-operative insurance has been also organized in each area of the following insurance, (1) individual or social insurance, (2) personal and property insurance, and (3) domestic or business insurance. The co-operative insurance in the area of individual or business insurance has been developed and can be subdivided as follows:

- (1) The co-operative insurance operated by several types of co-operative societies such as agricultural co-operatives and agricultural indemnity societies, co-operatives for small scale commerce and industry and fishery co-operatives, and consumers' co-operatives.
- (2) The fire co-operative insurance of local governments such as prefectural, city, town and village offices for the public properties including the buildings, houses, cars, etc. established under the Local Autonomy Law.
- (3) The fire and life co-operative insurance managed by voluntary organizations under the Civil Law.

Under the scope of social insurance, we can find (1) the short-term benefits which are similar to the health insurance for various kinds of employees and (2) the long-term benefits similar to the employees' annuity insurance. These two kinds of insurance are operated by the co-operative societies of employees of (a) central government, (b) local governments, (c) public corporations and (d) semi-official organizations of agriculture, forestry and fishery. Some of

these are well furnished with the features essential to be a proper insurance but the others are of quite different character from insurance. As I noted earlier, in general, the significance of these insurance is the fact that a great number of persons is insured and the premiums are computed rationally and scientifically.

We can find a typical pattern of individual insurance in the mutual-aid business operated by the agricultural co-operative societies. These co-operatives are organized on a nation-wide basis with a central office and numerous local offices in each town or village under the supervision of the Ministry of Agriculture and Forestry and are operating the life, fire and other co-operative insurance as supplementary business to their main activities, namely, co-operative farming, processing, marketing, and banking. All the local units located in each prefecture form a prefectural federation which takes the charge of re-insurance besides the main co-operative activities. Furthermore, all these prefectural federations constitute a national federation which engages in re-insurance and retrocession. An important point to be noted here is that only through a nation-wide frame work, the sound bases for co-operative insurance are securable.

The management of co-operative insurance in agricultural co-operative societies is currently regulated and supervised under the Regulation proclaimed by the Vice-Minister of Agriculture and Forestry. As for individual or business insurances, the fundamental regulations are provided in the Insurance Business Law. The requirements that fieldmen must meet and prohibitions of certain dealings and behaviors are stipulated in the Law Concerning the Control of Insurance Solicity. There are also laws which control the rates of premiums of property or non-life insurance, and for the foreign insurance companies. As far as the co-operative insurance of agricultural co-operative societies is concerned, the Proclamation of the Vice-Minister of Agriculture and Forestry covers almost all the phases of these regulations excepting for the provisions for the foreign companies.

Although the agricultural co-operative societies are managing partly the similar kind of insurance business, rivalries between the co-operative societies and insurance companies have been very few. While the co-operative societies have been mainly taking care of the life and property of farmers, the business insurance companies have been treating these rather lightly. Only the impacts on the Post Office Life Insurance have been increasing with the growth of agricultural co-operative insurance in the rural districts since both have been making the same kind of life insurance contracts in almost same districts.

There are a few reasons why co-operative insurance on life and property has gained a public favor and successfully grown in the rural areas. They are: (a) Premiums are generally cheaper, partly owing to the simple forms of management. (b) Co-operatives have developed throughout the country for the sake of their proper aims and served for the rural progresses. (c) Farmers hold friendly feelings upon co-operative societies because these are organized on a local community basis and the directors are chosen from their neighbors. (d)

Payment could be readily settled through mere check-off from the account of policy holders with the co-operative societies which farmers usually open with the receipts of products sales. (e) Liability reserves in the co-operative insurance could be used for investments in respective communities to promote the agricultural facilities.

It can not be denied that the co-operative insurance holds some defects in functioning as a sound insurance. (a) The rates of losses are high due to inadequate selection of risks. This is especially true for the fire co-operative insurance since the insured properties are located closely in the same community. (b) It is very hard to find the proper staff members who have the necessary knowledge on insurance and managements are usually under the hand of inadequate small numbers of persons. (c) Management of re-insurance business by prefectural federations tends to be influenced by the selfish interest of its member co-operatives.

The agricultural co-operative society is confusable with agricultural indemnity society, but the character and business of the co-operative society are quite different from those of the indemnity society. The primary business of co-operative societies are co-operative farming, processing, marketing and banking which are provided in the Agricultural Co-operative Law and the co-operative insurance is a side-work for the society. In contrast to this, the agricultural indemnity societies are organized in order to provide relief for damages and losses on farm produces, producted goods and live-stocks under the Agricultural Indemnity Law. The indemnity for damages and losses by storms and various disasters are carried out based on a national economic policy, and larger portion of the necessary funds are furnished from the fund of National Treasury besides the fund accumulated by the premiums paid by the beneficiaries. Although in some instances the co-operative insurance on fire and other accidents are operated as side business, their proper or main activities are neither co-operative nor insurance. Occasionally some payments have been levied in connection with indemnity business but it is not to finance the whole amount of disbursement but to establish the basis for indemnity fund. This explanation may have a touch of overstatement but, I believe, it goes to the core of matters.

As for the co-operative insurance in fishery industry, the fishery co-operatives are running life co-operative insurance besides the indemnity for damages and losses of fishing-boats, tools, fishing nets as well as catching results. But the total values of their business are still not big enough because only a few years have passed since their starts.

The co-operative insurances in urban areas have been operated by two kinds of organizations. (a) Some of the commercial and industrial co-operatives of small scale are operating the life and fire co-operative insurance besides their proper activities—co-operative buying and selling, production, and banking. (b) Independent fire co-operative societies which are established for their specified activities in larger towns and cities.

The co-operative insurances by urban co-operative societies have not shown good results in business so far mainly due to the inadequate selection of risks, which are quite important for successful insurance management. Since these organizations are set up by the residents or entrepreneur of business in the same city or district, a fire may spread involving many victims and the whole amount of damages and losses may surpass the total amount of premiums collected. In addition, the premiums are generally lower than that of fire insurance companies and most of the co-operative insurance business are not sound.

However, in many cases the co-operative societies organized in the prefectural federations showed better results by adjusting such deficiencies by generalizing risks in wider area than towns and cities. A further development may be expected by generalizing risks through the national federation.

There is another type of co-operative insurance in urban areas. This is the co-operative insurance for the official properties operated by the local governments such as (a) prefectural offices, (b) city offices, (c) town and village offices. It may be deemed as a special pattern of public self insurance. Premiums in this system are generally at half the premium of fire insurance companies. This low rate has been made possible partly by cutting down the expenses. Moreover, losses of too much magnitude are not deemed as the insured properties lie scattered in wider areas. Hence, almost every annual financial settlement has run some amount of surplus. Investment of reserve funds of co-operative societies is less restricted than in the case of business insurance companies. So far a large sum of money of the insurance society of this kind has been invested in buildings in Tokyo.

As a special pattern of the fire insurance business, this is confined to the public properties by statute, but as far as this field is concerned, it is becoming a powerful competitor to the private fire insurance companies. The amount of the business of the latter has been narrowed in this field.

The co-operative society is not confined to the realm of individual insurance as discussed above. In the field of social insurance, too, it has been developed to a considerable degree and at present the business is operated by the following organizations, namely co-operative societies of (a) employees of the central government, (b) employees of public corporations, (c) employees of local governments, (d) personnels of agricultural, forestry and fishery institutions, (e) teachers and clerks of private schools including universities.

These organizations, commonly named as co-operative societies, are organized by the employees of various categories. Their insurance business includes short-term benefits or health insurance and long-term benefits or annuity. However, there is an exception that the organization of personnels of agriculture, forestry and fishery operates only the long-term benefits leaving the short-term benefits to the Employees' Health Insurance of the government.

The origin and development of these co-operative societies antedate to

the establishment of the Employees' Health Insurance. Their outsets were the introduction of co-operative societies for lower class employees of governmental factories of Ministories of Army and Navy, railroad workshops and printing office of the government, and a small numbers of cotton spinning mills. Later, the co-operative societies in cotton spinning industry was abolished and switched to the Employees' Health Insurance when it was established in 1927. The societies for the government employees have been continued as a social insurance under the new law passed in 1948 and served to the government employees of all classes providing both the long-term and short-term benefits.

Recently there is a growing movement among local government employees to organize their own co-operative society under the special enactment and stand out of the social security programs administered by the Ministry of Welfare. One motive of this movement is in the low level of the annuity under the present Employees' Annuity Insurance and another lies in the attraction of discretionary investment of accumulated reserve funds which would be of much profit for many sorts of welfare or recreational business. However, this is an unwishful tendency contrary to the ideal picture of a coordinated social security program.

Studies on the co-operative insurances in Japan are needed because they have been widely developed as quasi-insurance, extending on both individual and social insurances. Moreover, they often compete with insurance companies, and yet, not on the same status of legal controls. The regulations for the activities of insurance companies are much stiffer than those for the mutual-aid insurance systems.

This treatment of discriminatory should be corrected for the sake of fair competition by applying the same regulations on both insurance systems. At present, insurance companies are supervised by the Ministry of Finance under the Insurance Business Law. However, this law is not applicable to the mutual-aid insurance of co-operatives or other societies. The government in charge of agricultural and fishery co-operatives is the Ministry of Agriculture and Forestry, that of the co-operatives of small scale commercial and industrial entrepreneurs and fire co-operative societies* is the Ministry of Trade and Industry, and that of consumers' co-operative societies is the Ministry of Welfare. This jurisdictional complexity has resulted in a diffused administration, which is apt to fall into a disregard to the interest of both insurers and insureds. This requires a prompt solution.

In order to improve the administrative confusion, actual works of each co-operative society should be carefully analyzed and those societies which have the same characteristics as insurance companies should be controlled by the same law. The first step to be made is a clear definition of and distinction between insurance business and co-operative business.

Another point to note is that co-operative society in the area of social insurance holds an essential part of social security program of Japan in substituting the health insurance and annuity of employees which is ad-

* Fire co-operative societies are also in charge of Ministry of Finance.

ministered by the government. Nevertheless, the fact that a part of the social security program is separately operated by co-operative societies is not praiseworthy in such a country as Japan where turn-over of employees is prevalent. It has resulted in unco-ordinated provisions, especially much diversified sums of benefits and conditions to pay.

In Japan, a further step towards nation-wide medical security and income security under the social security program has been taken on April 1, 1961 by introducing the National Health Insurance along with the old Employees' Health Insurance, and the National Annuity along with the old Employees' Annuity. But completeness in these two areas of social security has not been attained yet, because an omissioned bracket exists in the coverage gap between the two health insurance systems, for instance, smaller entrepreneur and their employees are often lying outside of the two schemes, and a further co-ordination on the compute of qualifying periods and the amount of benefits is required between existing diversified types of public annuity systems. The officials are studying relevant plans to carry out these remedies.

Lastly, it may be possible and helpful for an advance of social security program in Japan to divide benefits of medical and income security into two parts, namely standard (unitary) benefits and additional benefits, since social security aims primarily at maintenance of minimum standard of living for every class of population.