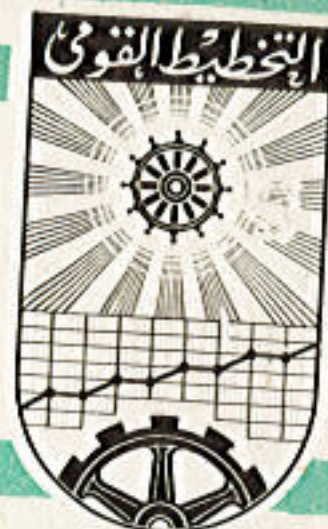


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THE INTEGRATION OF THE STATE INSURANCE
INTO THE ECONOMIC SYSTEM OF THE GERMAN
DEMOCRATIC REPUBLIC

BY

Prof. Dr. Bader

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Views of the Institute of National Planning".

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I. Introductory Remarks:

The economic system of socialism is a system of the conscious use of the economic laws of socialism by the state under the leading of the party of the working class. This includes the active participation of all workmen in the framework of their social life. Securing a high and continuous increase of work productivity is an objective that is also included in our system of comprehensive socialist planning in the GDR. The idea of our economic system can be formulated as follows: It is the organic connection of centralised planning and management of the basic problems of the whole social process with the self-responsible planning and management of the socialist producers and responsible personnel of public affairs in the central government as well as in the different localities. According to this idea remarkable changes have been carried out step by step in all spheres of the national economy. An expressive sign of this development is the establishment of full responsibility of the state owned enterprises in all fields of their activity. In the period of the erection of socialist order in the GDR the enterprises were financed to a high degree by the state budget and they were on the other hand obliged to transfer nearly all their profits and amortization funds to the state budget. Now most of these funds remain at the disposition of the enterprises and are no longer redistributed by the state budget. The enterprises can use their own means for the improvement and enlargement of their production process. On the other hand the enterprises are now fully responsible for covering any losses due to fortuitous events by their own financial means that means they have to bear all risks connected with their activities such as fire explosion, theft, etc. They can no longer depend on the state budget in

the cases of calamities due to any of these events. Therefore, the evidence and possibility of taking insurance protection is now of high importance for all enterprises.

The establishment of the economic system has necessarily also influenced the work of the insurance organs of the GDR. The state insurance system had to be reorganised in order to secure a high efficiency of its activities in all fields of our national economy. The most remarkable changes were the introduction of a new statute for the State Insurance and the reorganization of the insurance of state owned enterprises in 1968, the main content of them will be treated in the following two chapters.

II. The legal status of the State Insurance (St.I.) of the GDR

The insurance system of the GDR consists of three parts: Social insurance; property, liability and life personnel insurance; insurance of foreign trade and reinsurance. The organ for carrying out property, liability and personnel insurance is the State Insurance of the GDR (Staatliche Versicherung der Deutschen Demokratischen Republik). The integration of property liability and persons' insurance into the economic system of socialism required also a change of the legal status of the State Insurance. This was done by the decree of the statute of the State Insurance on 19th Nov. 1968. By this the former statute enacted in 1957, was made invalid.

The new statute comprises 6 main sections, these are

Section 1 Position and main task of the State Insurance formerly
"Deutsche Versicherungsanstalt"

Section 2 Tasks, rights and duties of the St. I., sub-divided
into three sectors: insurance of economy-insurance of
persons-social insurance.

Section 3 Questions of management

Section 4 Questions of legal affairs

Section 5 Questions of business management, assets and funds

Section 6 Final remarks.

Comparing the structure and the individual positions of the new statute with those of the former one it becomes evident, that the new statute is not just a textual revision of the old one nor a mere adaptation to the changes that had meanwhile taken place in the several fields of activity during the last years. The new statute is based on the new scientific insights in the field of marxist-leninist management sciences and economic-system-regulations.

It was thus laid down what has now to be done by the St. I. in fulfillment of its current tasks but at the same time the direction and the aims of the development of the St. I. for the next few years were pointed out. I shall not demonstrate and interpret the paragraphs of the statute in detail .

I shall only select such provisions as are suitable to prove my thesis. Looked upon from this angle paragraph 2 appears particularly important, There is first stated that the main task of St.I. is "to shape the insurance business according to the necessities of the developed social system of the G.D.R." This is an unambiguous statement that insurance matters are an inherent part of the economic system and in connection with it of the developed social system of the GDR. That must be kept in mind in all activities of the St.I. and can only be fulfilled when the insurance work is formed and carried out in full agreement with the activities of the other part-systems of the economic system of socialism.

The St.I. supports the management and the industrial combines in their efforts to reach a high rate of increase of national income and to secure its best utilization. Therefore the St.I. is not only an instrument for stabilization but also for promoting the growth of the national income. As far as we know this is the first time that an insurance institute is given the task to work out a forecast of the further development of insurance-matters based on the development of the social reproduction process and the continuous improvement of the conditions in work and life of the citizens. The achievement of such a comprehensive and complex task demands a new orientation of management, the forming and engaging of a leading group of high qualified practitioners, the realization of the requirements-laid down in the documents of the 3rd university-reform-and asking for the consequent orientation of scientific research on practical priorities by means of a genuine partnership between scientists and students on the one hand and practitioners on the other hand.

The statute also works out the fundamental principle that insurance relations must be carried out mainly as non-compulsory insurance by contracts, based on socialistic business relations. The importance of non-compulsory insurance in the activities of the St.I. can be seen from the fact that the compulsory insurance makes up no more than 30 % in the portfolio, even though the insurance of economy and agriculture is widely based on

compulsory insurance.

The statute mentions in detail what belongs to the task of insurance activities under the condition of the power of workers and peasants. At first it mentions the advisory function of the St.I. in all insurance activities. The term of "insurance activities" must be understood in a wide sense. In my opinion it includes among other things the obligation for the St.I. to inform the enterprises, institutions and citizens in general about the necessity of forming security-funds against damages and similiar unfore-seenable calamities. Thus it must be clear for them that a prudent reserve policy is an inseparable part of a scientifically based management and that therefore it is wise and advisable to take out voluntary insurance contracts in addition to the compulsory insurance. If the St.I. understands on the active and creative help of the citizens, social organisations, organs of the state and enterprises when fulfilling its duties, such as working out the different lines and conditions of insurance, preventive efforts, adjustment and analyse of the causes of damages.

The St.I. has to support the organs competent for public information and for prevention of damages. Therefore the St.I. is not the leading organ in the field of preventing and combatting damages because its task is to build up, to manage and to distribute the insurance funds. But in this very function it is an essential part of the whole system of safeguarding the process of social reproduction against disturbances of any kind. On the other hand the St.I. is entitled to demand help from the competent organs of the state and economy, especially in the case of preventive measures of investigating the causes of losses and of adjusting the volume of damages

The main task of the St.I. is to make the economic category insurance maximally effective in the framework of the economic system of socialism on the basis of economic accounting. The tasks resulting from the forecast must be realized in accordance with the long termed

and annual plans and with the legal provisions and contractual agreements.

Applied to the St.I. economic accounting means to calculate and to fix the premium for each line of insurance in such a way that it covers the claims and costs and that a surplus can be gained, enlarging the own assets of the St.I. and making it possible to surrender a part of the surplus to the state-budget as a contribution for the converging social requirements. This involves the special problem of costing. The statute says "that the tasks must be carried out with smallest costs and strictly according to the principle of economy". But what does it mean "Working with smallest costs" for an insurance enterprise?

There is no doubt that this demand can only be understood in a qualitative sense. An essential part of the total costs is due to new business. To reduce these expenditures would mean that the St.I. could fulfill its task according to the statute only insufficiently. The demand to carry out the tasks with smallest costs can therefore be understood only relatively, that means that the costs must be seen in comparison to the volume of premium and as far as possible separately for the different lines of insurance. Thus seen an absolute rise of costs is not necessarily in contradiction with the principles of economic accounting, provided that a higher economic advantage results from the increasing volume of premiums. In this case it is possible that the planned surplus may not be realized in the year in question, owing to an unexpected volume of new business in excess of what was planned and in connection with it to the high acquisition costs.

It would be wrong to characterize such a development as negative, because it only results from the fact that the acquisition costs can not be booked as assets as can be done in life insurance, but must be debited in full height to the account of the running year. Consequently a higher

profit than foreseen in the long-termed plan can be expected in the following years. If the actual acquisition costs go beyond the planned sum as a consequence of the extraordinarily high new business it would be in full accordance with the principles of accounting when in this case the difference between actual and planned costs is not charged to the debit side of the running year but carried over to the account of free reserves of the St.I. The necessary balance can be achieved in the following years from the additional surplus to be expected.

In order to secure a working of the St.I. according to the plan the statutes says that an insurance balance-sheet must be drawn up and accounted for every year for the whole period of the perspective plan as well as for the running years. The insurance balance-sheet must be presented to the Minister of Finance.

As to the tasks of the St.I. in the field of insurance of persons I would like to point out the general aims of the insurance of persons formulated in the statute. I do this because a new regulation analagous to the insurance of the economic sector is still lacking. According to this paragraph it is the task of the St.I. to develop such lines of persons insurances as supplement and support of the measures at the state in the field of social-politics and compensation, referring to permanent or temporary disability by illness, accident or old age as well as to the economic security of dependents in the case of death. Here too the frame of the activity of the St.I. has been worked out in such a way that it is fully integrated in the whole system of the material and cultural provisions for the future of the citizens of our republic.

Section III is dealing with the management of the St.I. Here the latest knowledge of planning and management sciences have been taken in consideration. In comparison with the

old statute the duties and rights of the head of the St.I. are formulated more precisely and the hierarchy of management is clearly mapped out. The St.I. is headed by the Director General on the principle of individual responsibility.

He is personally responsible to the Minister of Finance for the whole activity of the St.I. and is accountable to him. He has the duty to secure the fulfillment of the tasks of the St.I. according to the principles of marxist-leninist science of organisation by using modern methods and instruments of management. To do so it is an indispensable necessity to expand and to promote adequately the existing system of information.

A further main task is the rationalization of the work of the St.I. by large-scale-use of computer technology. The Director General is further responsible for the enforcement of the principles of socialist staff-policy in the St.I. This includes especially political education, qualification and adequate employment of specialized and leading staff.

Being a government institution working on the principle of economic accounting, the State Insurance must have at its disposal money and materials, which it receives from the State without reservation. It also requires, to some extent, guarantee funds to cover possible losses, particularly when new lines of insurance are to be introduced and tested out. These funds are also part of the free reserves. The sources for the contingency reserves are, first, loadings for contingencies which are included in the premiums for risks whose financial consequences cannot be fully foreseen owing to the lack of sufficient statistical evidence, or for which it has not, or not yet, been possible to bring the law of great numbers to full efficiency. Besides, the calculated risk premium not used up in a year because of low incidence of damages, have also to be transferred to the contingency reserve.

The contingency reserve is not financed and accounted for in a total but according to its respective economic origins, which is also a further development of the principle of economic accounting in the state insurance field. This enables the state insurance in any given case to adjust premium calculations or, generally, to extend and intensify existing insurance relations.

The contingency reserve is made use of when the annual volume of premiums is not sufficient to meet the legal and contractual obligations of the insurance organisation. In the same way that the state insurance contributes to securing the process of reproduction in the national economy as a whole and in its part systems, by forming and distributing the insurance fund, the

contingency reserve has the function to equalize and absorb disturbances in the insurance system itself, thus securing continuity in the working of the annual plan. The biggest and most important fund of the state insurance is the mathematical reserve for voluntary life and annuity insurance, also including the reserve for non-consumed parts of annual premiums. By the end of 1969 this fund has widely surpassed the figure of 5 000 billion Marks.

This fund is not homogeneous in character, neither from the actuary's nor from the lawyer's point of view. Therefore its legal status is open to discussion.

In the fulfilment of his main duties the Director General is supported by the Board of Directors and by Advisory Councils attached to the State Insurance by statute. The Director General has a deputy, whose appointment and recall, as well as that of the other directors lies with the Minister of Finance. The respective responsibilities of the directors are mapped out by the Director General. Concerning this top managing staff, the Director general has the right of presentation to the Minister of Finance. The Director General has direct authority over the provincial directors who, in turn, have authority over the district directors. Each director is individually responsible in his department for the fulfilment of the duties of the state insurance and for the political and vocational guidance and instruction of his staff. The appointment and recall of a director lies with his immediate superior, to whom he is personally accountable. Legal representation is also regulated by statute (§ 16) in accordance with the structure of management. Notable changes in the management of business, investments and funds have had to be introduced following the introduction and develop of the economic system of

socialism. The tasks laid down in the overall insurance planning instrument are detailed in the finance plan, which is drawn up in accordance with the principle of economic accounting. For the purpose of rendering account of the past plan year the state insurance draws up an annual balance sheet, a profit-and-loss account and also a business report that has to be submitted for approval to the Minister of Finance.

The State Insurance controls and administers the following funds:

- free reserves,
- contingency reserve, including the contingency reserve for the insurance of enterprises in the agricultural, food and forestry sectors,
- mathematical reserve of voluntary life and annuity insurance including reserve from what the statute calls non-consumed shares of premium.
- insurance funds of social insurance carried out by the state insurance organisation.

Clients that have taken out life-insurance have direct legal claims on a considerable portion of the mathematical reserve -claims that they can realize by surrender, loan or conversion. Other portions are not liable to such legal claims. Here, the means accumulated serve to make the necessary financial adjustment in time for the steadily rising life risk as against the unchanging premium to be paid every year. In annuity insurance business, the mathematical reserve has the character of collective property shared among the survivors from the number of those who originally took out the insurance. It should further noted that the mathematical reserve is reduced by that part of acquisition costs that is not covered by the first premium, and that it also furnishes the

reserves for the administration of paid-up policies. Any surplus resulting from interest and low mortality goes into the mathematical reserve and is refunded to the persons who have taken out life insurances in the form of additional payments upon maturation of their policies. A systematic regulation for the insurance of persons is yet out-standing. It is likely to bring considerable changes in this respect, amongst other things.

The means of both the mathematical reserve and the security funds are to be invested with the State Bank or - and this refers only to the mathematical reserve - to be invested in obligations. Thus the state insurance is integrated in the credit system of the GDR, in which it forms no negligible factor on account of the big amounts and the long-termed nature of the deposits it has in trust.

Every year the State Insurance forms insurance funds of something like 3 000 million Marks, and it controls property to the value of about 7 000 million Marks. Apart from its large business in the field of compulsory insurance the State Insurance Organisation administers more than 22 million policies in many lines of insurance business.

Great importance attaches, therefore, to the safe and proper conduct of business and accounting for all assets. The Director General is obliged to organise a systematic and documentary control and supervision system in the State Insurance. The annual balance sheet to be prepared by the State Insurance Organisation as well as its profit-and-loss account is to be examined and approved by the State Auditing Authority.

As I said in the beginning, I could not very well have gone in to all the problems in discussing the statute. What I tried to do was to show, at the instance of certain important legal principles, which course further development of the state

insurance organisation will follow considering its full integration into the economic system of socialism in the German Democratic Republic. I also tried to show that the contribution to be made by the state insurance organisation in the framework of the economic system of socialism - a contribution which, by the way, includes guidance and advice for enterprises and individuals - calls for increased active participation, a high sense of responsibility, and for full intellectual co-operation on the part of both executive and junior staff. This, in turn, requires a steady process of education and self-education to master the complex interconnections governing the developed system of socialism, and hence requires better knowledge and deeper understanding of the science of Marxism-Leninism.

III "Position and tasks of the insurance of people-owned enterprises in the economic of the socialism"

In view of the higher developed form of planning and governing the national economy and according to the further development of the Socialist reproduction new problems are also fixed for the state insurance to be solving by new methods. The institution of the full responsibility of enterprises for their reproduction process connected with the principle of self-financing created the supposition for a firm integration of such categories of the commodity production as credit, interest and also insurance in the formation of the developed social system of Socialism with aim to support effectively the accomplishment of the economic system of Socialism both as whole and in the sub systems. The solution of this task in the field of insurance has required also a change respectively a further development of the public legal position of the property and personal insurance of the GDR. The rearrangement of the insurance in the Socialist economy and the change in the legal status of the State insurance took place at nearly the same moment. This was not a matter of chance but depended on the logic of our development and represented a parallel to the legislation in 1950. In the following we shall treat the essential, substantial problems of this complex. In this connection we renounce on the representation of details or special technical regulations. The point is to take out the essential from the fulness of details and to enter into the problems interesting from the economic point of view.

The legal foundation for the insurance of people-owned enterprises are:

- the Bill on the Insurance of the Socialist economy (15.11.1968)
- the orders enacted
 - * on the conditions of the compulsory insurance of the Socialist economy with the State insurance of the GDR;
 - * on the conditions of voluntary insurances of the Socialist economy with the State insurance of the GDR and
 - * on the conditions of the compulsory and voluntary insurance of the Socialist economy with the "Deutsche Auslands - und Rückversicherungs - AG" ("German Foreign Trade and Reinsurance Company").

The news of this regulation consists on the following:

- (1) Formation and development of the insurance and relations between Socialist enterprises and Socialist insurance institutions founded on the Socialist commercial relations.
- (2) Formation of the insurance relations under narrow and extensive co-operation of the competent government and economy executives but also of the social organizations.

What means "formation of insurance relations on the bases of Socialist commercial relations" and which problems were solved respectively and are to be solved in this connection? First of all, there is the task, whether the insurance relations have to be shaped further more in the form of a compulsory insurance including as far as possible all lines of insurance. This question was absolutely legitimate, since we came to new conceptions of insurance practitioners and socialists specialists in other Socialist countries refusing principally the compulsory insurance and considering it as remains of an exaggerated

centralisation in the field of planning and management of the national economy. The arguments produced were tested conscientiously and confronted with our experiences of 18 years in the field of the compulsory insurance of the Socialist economy. According to that the compulsory insurance is a very efficient instrument of the state leading in protecting our enterprises against the financial consequences of events causing damage. The abandonment of compulsory insurance would mean to renounce on the advantages inhering in the Socialist system in the field of insurance. According to the leading ideas about the economic system of Socialism however the compulsory insurance is to be used only in those cases where the national interests together with the enterprises' interests makes it necessary.

The criterions therefore are:

- (1) that are covered only damages qualified to disarrange essentially the national reproduction process;
- (2) that an accumulation of reserves by the enterprises - if possible would be ineffective from the national economy point of view but also for the enterprises;
- (3) that an additional financial security of manpower is to ensure everytime independent of the financial situation of the enterprise. Accordingly the compulsory insurance of the Socialist economy incloses
 - a - damages to capital fund and circulating assets by elementary events (Acts of God), fire, explosion, implosion or aircraft
 - b - rights to claims for danager on account of legal liability provisions of the car holding and use against enterprises,
 - c - accidents of employees working in the first or second job in the enterprise but also without pay off. Claims can be only advanced in the case of accidents entailing a bodily injury of more than 50 per cent or the death inside a year.

The notion "elementary events" comprises the following events causing damages:

Lightning-stroke, flord, high-water, storm, tide, hail, snow, earthquake, landslip and subsidence. It will be mentioned, that there are risks looked partly at not or heavily able to insure in the capitalist insurance. Now the compulsory insurance incloses every state-owned enterprises, the companies, and - in opposit to the regulation therefore also every state and economy institutions working on the principle of economy accounting. Exclosed of the compulsory insurance are only the capital funds and material circulating funds of railway and mail ("Deutsche Reichsbahn" und "Deutsche Post"). The causes for this exclusion are based partly on the specifical reproduction conditions, partly on the former development. It is not the task of this study and cannot be treating the content of the whole complex of relations for the enterprises arising from the compulsory insurance. I am restricting me to the points characterizing the development of insurance relations on the conditions of the economic system of Socialism. The Socialist economy's Bill of the insurance regulates both the compulsory and the voluntary insurance. The voluntary insurance of the Socialist economy is the essential point of the new regulation. The following principles are formulated analogously in the law for the insurance formation:

1. The financial compensation of events causing damages and disturbances by means of the voluntary insurance has to support the continuity of the reproduction process according to the tasks, rights and obligations of the enterprises.
2. All possibilities of the realisation of mesures preventing damages and removing damage causes are using by means of insurance relations, first of all by means of economic incentives.

How are to realise these principles is fixed in detail in the orders on the conditions for the Socialist economy's voluntary insurance.

At present there are in particular the following voluntary forms of the Socialist economy's insurance:

- The insurance of damage compensation claims against the enterprise (enterprise liability insurance);
- the insurance of damages in transport (transport insurance)
- the insurance of car, ship and aircraft damages (hull insurance)
- the insurance against water damage from broken or leaking pipes
- the insurance against burglary

The principle of the formation of insurance relation on the basis of socialist commercial relations is valid both for the compulsory and the voluntary insurance. It would be false to suppose that the compulsory insurance would be regulated by administration and only the voluntary insurance according commercial principles. That is alone the way of the new law formation engendering the deriving of the compulsory insurance from Socialist commercial relations.

The propositions of the State insurance were transformed to law designs according to principles sanctioned by the Ministry of Finance, and there was a far-reaching co-operation of enterprise and government' experts, State Insurance's employees and scientists under the leadership of the central committee of the Socialist Unity party.

These designs have been discussed by the workers and employees in more than thousand enterprise meetings and harmonized with the competent Industry Ministries and the Federal Committee of the Trade Unions after annexing the propositions expressed. Finally the bill was presented to the Parliament by the Council of Ministers and the State Council. After a thorough conference beginning with a report by the Minister of Finance the bill has been passed. Therefore the compulsory insurance

of the Socialist economy does not be a dictate in the form of an administration act but it is a resultat and expression of a far-reaching agreement between social and individual enterprise's interests, the result of a living creative socialist democracy. Further the way of formation and distribution of the insurance funds say about the groundation of the compulsory insurance on true socialist commercial relations.

Indeed relating to the premium calculation the law says, that the premium amount conforms to tariffs sanctioned by the Minister of Finance but this does not mean, that perhaps the Minister prescribes the traiffs of the State insurance according to a budget point of view. This point was also discussed with all interesting in preparing the law institutions. The principles of premium calculation - risk premium, security surcharge, cost surcharge, profit surcharge - have been worked out and fixed.

In our opinion the advantage of the compulsory insurance is that from the first such great a risk partnership is created making effective the law of great number - one of the principal requirements of insurance. Accordingly the security surcharges are required only in so far as risks are covered perhaps cropping up very rarely but involving a high use of insurance funds in the events of loss. However security surcharges for covering fluctuations in the damage course is not required or only in a small amount, first of all, if the State Insurance disposes on sufficient calculating funds making possible to cover such fluctuations without difficulties. The experience in the former compulsory insurance showed further more, that the costs for formation, management and distribution of security funds can be hold very small in the case of a compulsory insurance. In estimating the pros and cons of a compulsory insurance that is to observe. But it is to note, that the integration of the insurance relations of the Socialist economy into the economy system of Socialism requires a higher qualified work of the

state insurance executives in producing, forming and developing commercial relations to the state-owned insurance enterprises as hitherto. This concerns also the amount of administration expenses. These additional costs will pay not only in the macroeconomic sphere but also involve a higher intensity degree of the insurance protection and therefore an increase in the premium amount of the State Insurance as whole. An essential disadvantage of the compulsory insurance in Socialism on our opinion is based on the extraordinarily differing the risks in the enterprises concerned by the compulsory insurance. This is considered in the premium calculation, but an exact relation between the amounts paid by an enterprise and his risks insured does not exist. Therefore at least in the first years of effect of the new compulsory insurance a certain redistribution of enterprise funds by the formation of insurance funds cannot be avoided. This was true of course also in the past until the abolition of the premium liability and that is it in a much higher degree than today. But because of the causes mentioned the enterprises were indifferent to the ratio between the premium paid and the risks insured. With the integration of the insurance of Socialist economy into the economic system of Socialist this was changing thoroughly. The compulsory insurance premium is a cost element of the enterprise. The cost reduction is known as the most important fact in realising the principle of highest economy. Therefore it is not remarkable, that today the enterprise management cares also about the insurance premium, asking for the wish to their amount and developing propositions how and how many they can be reduced. The stronger premium differentiation intended by this of course has its limits where the rationality of the State Insurance work is called in question e. g. , where smaller enterprise profits can be bought only by higher national losses. This example also shows us, how the equivalent principle governing the insurance can be modified under Socialist production relations and developed because of the non - antagonistic contradictions.

Formation of compulsory relations based on Socialist commercial relations-that is further to form insurance relations so far as possible flexible according to the special conditions in the enterprises covered by the compulsory insurance. It is one of the principal problems for the advisory boards for the Socialist economy insurance called to be at the insurance institutions. The law further more provides that the Council of Ministers can reduce or enlarge the extent of the compulsory insurance for certain economy branches resp. for certain kinds of capital funds and circulating funds. Finally we refer in this connection to the possibility, that the enterprises also in the compulsory insurance can influence the extent of insurance protection and therefore the relations between enterprises' funds formation and collectives' funds formation by means of the State Insurance, and that by an respective participation in the losses suffered. So in the framework of the compulsory insurance of capital and circulating funds a compulsion is paid only in the case of damages over 1.000, -M per event.

The damages below the level of the arranged basic allowance are compensated by the insured himself; damages exceeding this amount are to be compensated fully by the insurer. In this connection the regulation making possible a higher basic allowance between the insured and the insurer against an appropriate premium reduction is important. The old law also provided franchises but with another target. At first the limits were very low, and at second inflexible e.g. doesn't suited to the different financial capacity of the enterprises. The aim of this was the covering of the small damages bulk by the enterprises themselves. They are hoping in two effects:

1. an economic stimulation of enterprises in direction to an active influencing the damage events;
2. to make free the organs of insurance of a lot of work, that is necessarily connected with the settlement of the mass of minor losses.

The success of these measures varied. The costs of claimsettling were doubtlessly diminished and thus manpower could be set free for more important tasks. As to the educational influence on the enterprises the expectations connected with it were not fully realized. That is plainly due to the highly differentiated structure of loss experiences of the enterprises and especially to the fact that the enterprises making a profit are not interested very much to reduce the expenses for minor losses that scarcely influence the total result. They could concentrate their efforts on more lucrative objects. But matters have changed now. In addition to the function already mentioned, the contribution of the insured enterprises has the task to stimulate the compulsorily insured enterprises to act prudently in forming the security funds needed. But this does by no means happen automatically. The enterprises must consider and decide to what height they can and will bear their share in the losses in question. This requires a spread over of premiums according to the height of the corresponding excess and must include real economical incentives to choose the excesses in correspondance with their financial possibilities. That in turn has the consequence that the responsibility of the enterprises will be strengthened to a high degree if the excesses are chosen sufficiently high. But there is no visible functional connection between the chosen excess and the risk premium payable for it. This connection has yet to be investigated and possibly to be differentiated according to the different contingencies covered by compulsory insurance. This example shows

clearly the necessity of realizing in practice the system regulation created by legal provisions and of establishing such kinds of business relations that support the efficiency and businesslike contact of enterprises in accordance with the plan. This all underlines our theses, mentioned before, to form and to carry out the compulsory insurance in the people-owned sector of economy on the base of socialist business relations. But this can only be reached as we tried to demonstrate, on a base of real partnership between the St.I. and the socialistic enterprises. Seen in perspective the non-compulsory insurances are the essential point of the new regulation. In this field the St.I. is confronted with voluminous tasks. The compulsory insurance is necessarily connected to some extent with elements of administration, but this is not the case with the voluntary insurance. It is new that the law of 15th November 1968 concerning the insurance of the people owned sector of our national economy regulates the compulsory as well as the non-compulsory insurance. This remarks that compulsory and non-compulsory insurance are now forming a closed system, the single parts of it are in full accordance. The different lines of voluntary insurance have as well as the compulsory insurance the task to support the continuity of the process of reproduction in all spheres of the economy, by equalizing the calamities and disturbances with financial means, and in full accordance with the tasks, rights and duties of the enterprises.

In concrete terms this means that all possible chances to shape and realize insurance relations by economic incentives should be utilized to prevent losses and eliminate their causes, so that voluntary insurance contributes in an active and purposeful manner towards establishing order and safety in the enterprises. In accordance with the basic concepts of the economic system of socialism in the GDR, it is up to the enterprises themselves to decide whether and to what extent they will take out voluntary insurance. As I said before there are two practical possibilities open to enterprises to compensate the financial consequences of damage or loss not covered by compulsory insurance:

- a) they may take out voluntary insurance;
- b) they may pay for the damage out of their own pockets, either from security funds especially formed for the purpose, or from other funds available.

Without going into the pros and cons of these respective methods, I say that the state insurance organisation or the DARAG company - as the case may be - are plainly obliged to devise forms of voluntary insurance in keeping with the modalities of the reproductive process in the enterprises, and which, moreover, are attractive enough to be successfully advertised. Well - informed and politically competent advice for the enterprises is one of the things inseparably connected with bringing insurance relationships into line with socialist business relations in principle. In this, the primary objective will not be to rouse your partner's interest in the conclusion of one type of insurance contract rather than another, but to convince him that planning for the formation of security funds to cover risks not included under compulsory insurance, according as conditions may be in the respective business, is an integral part of scientifically-based management. Only

when this has been made clear, the time will have come to advertise some particular type of insurance. Whether this is successful will mainly depend on whether the state insurance agent can convince his partner that the forming of a collective security fund through voluntary insurance is superior to organising one's own security fund. This implies that all state insurance agencies should keep their eyes on the structural changes fast transforming all sections of our economy under the conditions of the scientific and technical revolution. What is adequate and efficient insurance protection for an enterprise today, may to-morrow be outdated and inadequate. The large industrial combines that are in the process of formation, the big enterprises that determine the structure of some industry, and the co-operation chains, are faced with problems different from those of the other nationally-owned enterprises when it comes to forming the necessary security funds. These things must be realized in time and taken into account. The state insurance organisation, in its duties of forming, administering, and distributing the security funds needed by the national economy, can be a growth factor in the national economy only when it adjusts itself to these developments early, and takes the initiative in working out suggestions on how to improve and develop the system of security funds, which includes the system of voluntary and compulsory insurance, in close collaboration with advisory councils, pacemakers, experienced practitioners, and scientists.

I need hardly emphasize in this connection, that the integration of state insurance in the economic system of socialism will depend on how far we succeed in educating and training our staff to such an extent that they comprehend and understand from both the ideological and the economic angle, the process of shaping the fully developed economic system of socialism that is going on today. This will then enable them to take ^{an active and creative part in it with the} specific means that insurance places at their disposal.

For insurance relations to fall into line with socialist business principles it is necessary that indemnification is paid to enterprises immediately and without reservation as soon as the state insurance organisation's obligation to pay and the amount to be paid has been established. This applies to both voluntary and compulsory insurance. The state insurance is, however, entitled as well as obliged to make deductions from the indemnification whenever the enterprise concerned has intentionally or through gross negligence violated its legal duties concerning precautions and prevention of damage, or failed to take adequate measures when damage has occurred, and when such negligence has affected to occurrence, assessment or the amount of the damage. This provision must not, of course, prejudice the rights of third parties injured. These will get full indemnification in any case. This is so for example, in extra accident insurance or in liability insurance for motor-cars. If, however, an enterprise can be proved to have neglected its duties, the state insurance can claim back part of the payments made to the injured persons. Voluntary insurance, in accordance with its general purpose, is comparatively flexible, particularly in what concerns the share in costs to be borne by the enterprises themselves. Thus in voluntary third party insurance of nationally-owned enterprises, the enterprise has to bear the first 300.- Marks of every damage. This means that the risk is shared. For transport insurance in the nationally owned sector of the economy, the respective share is 250.- Marks per event. For insurance against burglary or against water damage from broken or leaking pipes the share is 500.- Marks per event. All these figures are minimum figures which may be increased by contract, with corresponding adjustments in premiums, which will then be lower. As I said before, this system will have full economic efficiency which means it will stimulate own enterprises to accept their responsibilities, when we succeed in finding an adequate ratio between higher shares in the risk and lower premiums to be paid. This will not be easy to achieve.

The premiums to be paid for voluntary insurance have to be financed from the net surplus left for the enterprises to dispose of at their own discretion, unless the law expressly allows them to be taken from other sources. This is in full agreement with Karl Marx who pointed out that the reserve or assurance fund - part of which is the insurance fund for the nationally-owned economy - has to be formed at the expense of the new value created by labour. Consequently, in the systemic regulations lately introduced, the reserves to be formed by enterprises individually must also be taken from the enterprises' net profit, and when no insurance has been taken out, nor a regular reserve fund been formed, damages that may occur must be deducted from the net profits of the enterprise and may on no account be put down as prime cost. Theoretically, this differs to some extent from the regulation for compulsory insurance, because premiums for the latter enter into the prime costs. From a purely economic angle there are no reasons apparent that would justify different treatment of expenses to safeguard, say, the process of reproduction against fire hazards as against transport risks. The rule according to which compulsory insurance premiums are to be treated as costs is a pragmatic rule, the making of which may have been influenced to a considerable extent by the fact that, until the new regulations were introduced, the compulsory insurance of the nationally-owned economy was free of charge. We can expect that in the further development of the economic system of socialism and the systemic regulation of the whole problem of reserve funds that this involves, common principles will eventually be worked out for the financing of these funds.

In contrast to the regulations in force until the end of 1968, the Statute on the Insurance of the Nationally Owned Economy lays also down the rules valid for the insurance relationships belonging to the field of Deutsche Auslands - and Ruckversicherungs AG (DARAG), which is our foreign insurance and re-insurance company.

Matters here are not different in principle from what I said about the State Insurance Organisation. DARAG is responsible for compulsory insurance of land vehicles and sea vessels excepting sports boats - of floating construction or working plant, either completed or under construction, as well as for export and import shipments, and cash, bills, cheques or other securities in foreign currencies.

Moreover, fixed and circulating assets (except motorcars) as well as stocks and inventories outside the GDR are subject to compulsory insurance by the DARAG company. The same applies to foreign property for which GDR enterprises have to bear the risk, provided, however, that compensation may-partly or fully - have to be paid in foreign currency. In principle, the group of enterprises liable to insurance is the same as in the case of the State Insurance Company.

As regards the extent of the risks covered by insurance there is a considerable difference between the compulsory insurance regulations of the State Insurance Company and those of the DARAG company. See page 2

In the case of compulsory insurance through the st.j. the insurance protection takes effect when the conditions laid down in the Directive are fulfilled without any additional action being required from the insured enterprise. The case is quite different for compulsory insurance through DARAG. In this case it is necessary, for insurance protection to become effective, that the respective enterprise should make an application to the insurance company. There is no protection without prior registration.

Apart from property which is subject to compulsory insurance, there are possibilities of taking out voluntary insurance for other things or risks, when and if compensation would have to be partly or fully paid in foreign currency. Besides the different forms of direct

insurance, DARAG is also doing passive and active re-insurance business. Insofar as direct insurance and re-insurance involve payments in foreign currency, the DARAG company, while forming part of the GDR insurance system, is at the same time part and parcel of the GDR foreign economic relations system.

The law of the insurance of the nationally-owned economy does not cover socialist enterprises in the fields of agriculture, forestry, and the food industry. This may appear incomprehensible at first sight since agricultural enterprises are beyond any doubt part of our socialist economy. The fact that separate legal provision have been made for the enterprises in agriculture, forestry, and the food industry is due to their particular conditions of production which differ very much from those in manufacturing industry, trade, transport etc. The directive on the insurance of socialist enterprises in agriculture, forestry and the food industry and on insurance against animal epidemics and the insurance of slaughtering-cattle has reorganised unified insurance protection for both state and co-operative enterprises in these fields.

