

CONTROL AUTHORITIES

The organisers of the Conference have asked me to speak about "the consumer's point of view", which I will do with pleasure.

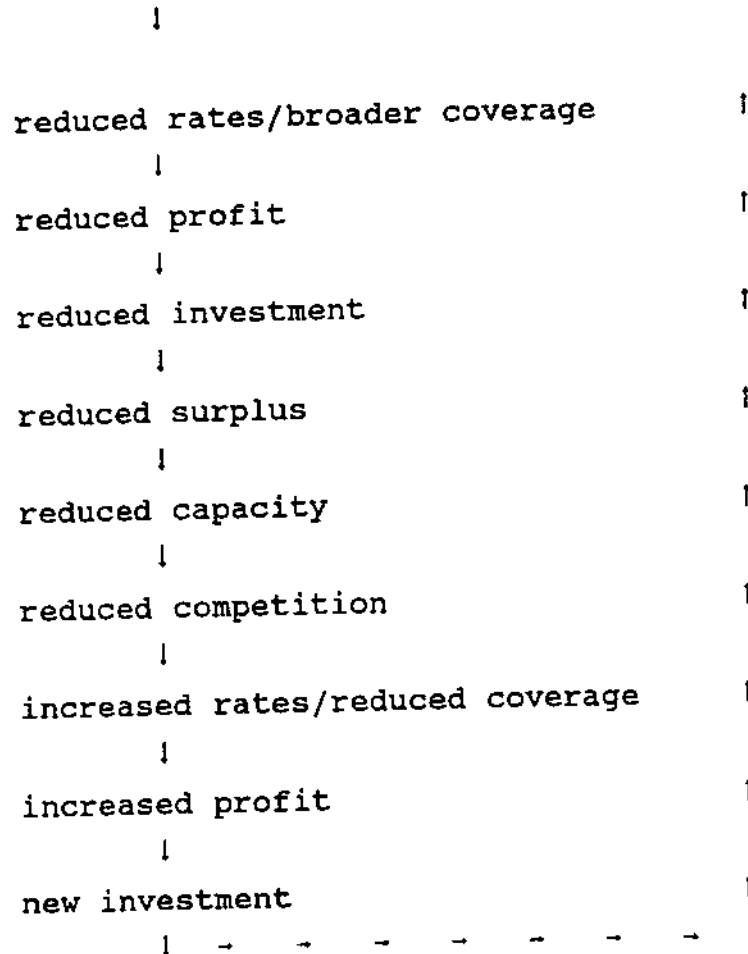
Naturally the insured parties support the activities of the control authorities, while the international insured parties which work with captives will applaud the internationalisation of the directives within the EEC.

What is involved here?

It is the responsibility of the control authorities to check that insurers are able to meet their obligations now and in the future. In general this is of the greatest importance for the insured parties, but this is especially valid for forms of insurance which have a "long tail" character. These occur especially in the liability area where damage only becomes apparent after many years. When applying the "occurrence principle" in the liability area it is then necessary to return to the insurer who issued the policy at the time when the damage occurred. If a claim which originated in the past is made public and it is found that the insurer "of the time" has had to close down his business because of solvency problems, then the policy has no value and the insured party loses out financially. The investigation of the control authorities as to whether insurers can also fulfil their obligations over the long term is therefore essential.

Of interest in this context is the "life-cycle" in the insurance business which reveals the following pattern:

increased surplus	↑
↓	
increased capacity	↑
↓	
increased competition	↑



Problems start to emerge especially in the period of reduced profit/investment/surplus. This is the period when the insurers have to prove their quality and it is also the time, as we saw several times last year, when insurers terminate their activities either voluntarily or are forced to do so for solvency reasons. The supervision of the control authorities must be such that "problem cases" are identified in time.

Supervision of the insurance business obviously exists in all EEC countries. As compared to the other European countries, the Netherlands and the U.K. occupy a special position. In the Netherlands only a licence or registration is necessary and insurers can operate freely within the legal restrictions. In the other EEC countries the usual practice is that a licence has to be obtained for each product. This may cause a slowdown in the innovation of insurance products. Within the EEC this

situation is due to change. With the introduction of the "Third Directive" in 1994 the British and the Dutch supervision system will have to be adopted. The introduction of this "Third Directive" will also bring the "single licence" system, with the result that an insurer with a licence in its home EEC country can in fact operate in all EEC countries, with some restrictions. Additionally the "home country control" system will also be introduced. This means that all EEC activities of an insurer are controlled by the Control Authority in the home country; Control systems will then be mutually recognised.

What does this all mean for the insured party:

Insurer solvency control is a fact. Despite this control we are regularly confronted with insurers which cannot adequately meet their obligations. Current developments in the insurance market which has been characterised in recent years by the fairly regular occurrence of enormous claims, mostly based on natural disasters, have certainly had an effect; solvency is showing a tendency to decrease.

The insured parties, however, must be able to assume that they are secure, even in these difficult times for insurers. And the funds for paying damage claims must also be available. As mentioned earlier, this also applies to "long-tail" business. Could control be improved? The EEC Directives lay down minimum solvency percentages. In practice the insurers assume that on the basis of sound policy principles the application of a higher percentage would be preferable.

Do the present official percentages need to be officially adjusted to a higher level? This would certainly bring increased security for the insured parties.

In the meantime the parties in the market have learned their lessons from several business failures in the market. Both brokers and big international customers apply internal rules

to determine the solvency of insurers. These rules, which also apply in the concern whose insurance interests I handle, indicate the financial requirements that have to be met by an insurer participating in the policies. Several times during the past years we removed from the policy those insurers who did not pass the test.

None the less there are drawbacks attached to the procedures adopted by international companies, brokers and specialist analytical companies. There is always a time-lag. Analyses are based on figures published in the annual accounts. However, the annual accounts are issued quite some time after the close of the financial year. Financial facts from the relevant financial year therefore become officially available at a rather late stage.

However, the check made by brokers on financial aspects does offer an advantage. Apart from the fact that the brokers' systems can be quite comprehensive and complex, they have the advantage of providing access to "market gossip" which can indicate problems within a business at an early stage. Brokers can, if large enough, insist that insurers provide them with additional information to supplement that which is published for statutory purposes and - again if large enough - can insist that face to face discussions are organised to explain areas of financial uncertainty.

Generally speaking, however, the main problem is that financial information becomes available at a late stage and the question arises as to the extent to which control authorities are able in the interim period to identify developments in the course of the current financial year, via information from insurers. This can be done by checking the financial ratios. In this way "nasty surprises" can be avoided at a later stage!

The "single licences" and "home country control" developments within the EEC can in general be greeted positively by captives, certainly when the captive is established within the

EEC. In fact, whereas a "fronting insurer" had to be used in a country until now, the new law opens up the possibility for direct issue of policies from one of the EEC countries to the other EEC countries (subject to some restrictions). This direct issue will help to speed up the operations and will lead to a reduction in fronting costs. On the other hand re-insurance remains necessary for a captive: this means in turn that the solvency of the re-insurer will be raised for discussion and this is another aspect in which the control authorities have a role to play.

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