INTRODUCTION

JOHN BURKE

INSOLVENCY is the buzz-word and not just at the Fifth International Reinsurance Congress, taking place in Bermuda from 7 to 8 November. Even if rates are starting to harden, this must surely be the worst year in history for reinsurers and insurers. It is not even possible to qualify that as during peacetime, since at least the first few months saw underwriting disrupted by the Gulf War and its economic aftermath. Natural disasters too continue to occur from Luzon to Los Angeles — in areas of increased population, that is the point.

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Monte Carlo — still a magnet

Even life offices can take scant comfort following the worsening estimates of AIDS (*SIDA*) which, according to the World Health Organization in June, will make Asia's economies go from boom to bust after decimating Africa and spreading havoc elsewhere. Its forecast of cases has worsened to 40 million by the end of the century.

In aviation, fewer crashes have been outweighed by what the leading claims law-firm, Beaumont & Son in London, calls *kamikaze* rates. The world's marine insurers, meeting in Boston during September, will have to face the spate of losses of bulk cargo carriers and also assess Norwegian and other reaction to the new US law against oil pollution.

Significantly, on both sides of the Atlantic and Pacific the (re-)insurance industry has become a political issue. At what stage will intervention become an institution despite the trend among developing states to divest themselves of (re-)insurance corporations? It is not just the threat to automobile insurers in California and Ontario nor the controversy about having Canada's kind of healthcare in the USA where big claims are worrying insurers. There is also the lobbying on Capitol Hill to spread the risk from earthquakes.

Bigger political tremors stem from American insurers' dabbling in anything from general liability to junk-bonds. The latter caused in April the USA's largest collapse: First Executive. Even the nation's No 3 insurer, Equitable Life (nothing to do with its venerable British namesake) is now the troubled target of an investment group. Although the leading reinsurer, General Re, at least achieved "modest expansion" in the first quarter, it was among those reducing commitments. Cigna Re withdrew.

For the US life offices, as opposed to property-casualty, the main fear has been write-offs on real estate. Compare this with Taiwan where the government, under pressure from the homeless, has curtailed speculating in land by insurers. Yet unlike that market of the future (watch Clerical Medical there), the American insurance industry faces a time-bomb that is already inviting tighter regulation — perhaps by a new federal entity, although the National Association of Insurance Commissioners wants improved state mechanisms.

Meanwhile in Britain the political sensation of mid-year was the idea that the tax-payers should bail out the members of loss-making syndicates at Lloyd's ostensibly to maintain confidence in the country's greatest exporter of services. However, there are at least 59 Members of Parliament from the ruling Conservative Party among the Names whose unlimited liability means that some are among the several wealthy citizens now facing bankruptcy. Can it be assumed that, as underwriting cycles get longer and less stable, Names are dwindling faster than delegates to Monte Carlo where they dipped by 25 to 1954 last September? The first lawsuit by Names against Lloyd's has started, which hardly helps matters.

Yet the loss at Lloyd's — an institution written off by the media at the end of the sixties — must be seen in perspective. One overlooked point is that Mick Newmarch, the boss of Britain's once mighty Prudential, could mitigate Lloyd's loss by foregoing a year's salary. It soared from £380 190 to £543 673 despite the Pru's waving goodbye to £340 million through imprudently buying up real estate agencies. While its salesmen threatened a surely unprecedented strike, Norwich Union (where a senior manager exposed himself to his secretary) faced the first of what may be several campaigns by intermediaries complaining about maladministration at British life offices. Insurance? It used to be such a solid and respectable profession!

Guardian Royal Exchange can think itself lucky in comparison merely to make its first loss since amalgamation. Ripe for takeover, it has pulled out of Italy, while Eagle Star has sold its Belgian offshoot, but Sun Alliance is expanding into several EC countries. According to Peat Marwick and also Salomon Brothers, British insurers are missing their chance in eastern Europe.

One clue to questionable trends worldwide was the departure from General Accident of the ex-banker whose policy of diversification led to disaster with New Zealand's banking and insurance group: NZI. Yet, all over, there are the signs of both reinsurers and insurers getting into everything supposedly to spread the risk. It is not called being a jack of all trades, but usually one-stop financial services (translate as *bancassurance* or *Allfinanz*).

Typical of the passions aroused was Nationale-Nederlanden's takeover of the Postbank which drew protests from brokers, shareholders and Dutch pensioners alike. But when in Utrecht last autumn, I was told by AMEV that its pioneering merger with VSB bank had gone down well. Overall, my impression is that the Netherlands is surprisingly unprepared for 1992 — one fascinating example being the rival (co-)insurance exchanges in Amsterdam and Rotterdam which could have merged.

Belgium is also vulnerable, although an open market already. The Belgian insurance association (UPEA/BVVO) told me of several straitjackets, including statal controls on life. Belgian insurers have also had to watch the state interfere in motor-tariffs and encourage encroachment by health funds (*mutuelles/ziekenfondsen*) while their own hospital policies face a 10% levy. The UPEA/BVVO complains that its 163 members are a milch-cow for the kingdom's budget.

Going through eastern Germany, I noted the speed and scale of penetration from the Federal Republic. It is not just that Allianz is investing up to 3000 million German marks over the next few years in the (problematic) old statal insurer and seconding 1500 staff. Magdeburger has taken over the district headquarters of the communist party (SED) in its native and namesake city, communicating by radio and data-links with Hanover where its postwar head-office will stay.

Concordia's office is a caravan outside Magdeburg station, while Colonia has a representative working from her home. The local savings bank (*Sparkasse*) is tied to Lower Saxony's public insurer. The same pattern exists all over; thus Leipzig's savings bank refers to Hamburg's official insurer. At the savings bank in Potsdam, I saw photocopies of typed forms to enquire about western life policies; the communist state had assured tiny sums at a low yield worse than without profits.

In Vienna, I found that Dr Siegfried Sellitsch of Wiener Allianz was not wholly convinced about *Allfinanz*. A few months later, it was interesting to hear Yugoslav (re-)insurers at a Kininmonth Lambert seminar identify this Austrian mutual as being the favourite among their migrant countrymen for life-policies — thus evading exchange-control.

Now there are worse risks in the Balkans, but Hungary, which I also visited, seems relatively attractive, especially as insurance was made competitive even under the old regime. The industry is looking to London for guidance, although the Germans are entrenched. Thus, Colonia has two investments, including a stake in Atlasz formed by the travel agency IBUSZ on being denationalised.

In the summer I flew by TAP to the autonomous Portuguese island of Madeira where the old English firm of Blandy acts for Lloyd's as well as American and British underwriting bodies. Madeira wants to woo insurers through offshore tax concessions approved by the EC. So far this status has been sought only by Bonança whose director, Dr Jeronimo Espirito Santo, says that the internationalization of Portugal's insurance could come "through offshore services, particularly in the area of captives".

Ranking fifth in size, Bonanca is now 60% private. I was in Lisbon to see the last tranche of Alianza sold off (above the share-price) after Tranquilidade. The biggest of all, Imperio, told me it will be denationalised last. And there are rumours of yet another bank-insurance empire involving Pedro Mello who set up in Brazil as a broker and insurer after the 1974 revolution.

Also in Lisbon, the national insurance association (*Associação Portuguesa de Seguradores*) gave me its booklet on safety for children (has such been done anywhere else?) as well as one on personal security which is similar to the Home Office's excellent booklet available during Britain's week against crime. Finally, here is a slogan from another brochure: *Prevenção, a outra face do seguro.*

Prevention — the other side of insurance! When all else fails, surely this must be the saving factor. There is a lot of such advice in the pages that follow. ■

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