PROVIDENT ADVISERS

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THE creation of the single market in insurance in the EC is being driven by a series of directives which are due to come fully into force over the next few years. The broad aims are to implement basic rights of establishment and freedom to provide services. EC insurance companies can already establish under the same conditions anywhere in the dozen member states. They will be able to provide services and actively market products across frontiers and eventually will only require a single insurance licence to operate throughout the EC. Supervision will be the responsibility of the country where the head-office is located.

However, progress will be slow, from a British perspective, because of a number of well-documented barriers to free and fair competition. Numerous legal and regulatory barriers to takeover exist in certain countries in what is sometimes called the European Economic Area, notably Switzerland. Structural barriers in the form of narrow share ownership exist in many countries, for example, Italy and France. In some states, such as Germany and Netherlands, many quoted companies have put in place technical barriers to unwelcome bids, including maximum limits on voting rights, non-voting shares, and two-tier structures that hamper or negate power to change the board of management.

These barriers to corporate expansion stem from differences in commercial culture, and other practical, legal and cultural obstacles stand in the way of effective marketing and distribution. It will take a great deal of time, effort and patience to change attitudes on all sides to remove these barriers effectively. In addition fiscal harmonisation, which is fundamental to true competition, is outside the scope of current EC directives.

Insurers from EFTA countries are close observers of developments within the EC. Some EFTA members have expressed a desire to join the EC, or, like Switzerland, hope to develop bilateral agreements on certain issues. Some EFTA countries are also looking at regulation with a view to coming into line with the EC. Currently both Swiss and Swedish insurers are investing in the community.

The opening up of eastern Europe and the subsequent trend to free competition and privatization provide significant prospects for insurance firms. On the trading front there are numerous opportunities for inward investment that Continental insurers such as Allianz, Colonia and INA have been quick to seize. Joint ventures and cooperative agreements have been the most popular form of business arrangement. There is also a considerable need for funding to develop people and technology. Several of the London market's leading brokers have been doing business with Comecon countries for years and already have the contacts and networks in place to ensure that they can take full advantage of the progress of these underdeveloped economies.

Change is not uniform across the nations of Europe. Diverse cultures and attitudes prevail, regulation varies greatly in extent and design, and stockmarkets also differ considerably in degree of sophistication. Variety will, and should, always remain; within the EC a level, but not uniform, framework is the aim and so directives deliberately allow for flexibility. The effect of this fundamental restructuring in Europe is to produce an irresistible force compelling insurers and reinsurers to review and develop their strategy.

Knowledge must be obtained and kept up to date on EC directives and their impact, including the stance that national regulators and governments are taking, and the measures that are in the pipeline. Firms will need intelligence on, for example, future partners or targets. They will need comparable information and the ability to interpret data, such as financial accounts. Knowledge of economic, political and commercial trends and events will be necessary. For example, the power of consumer organisations and superstructural bodies is growing, giving further impetus to the drive for competition.

Finally, networks of skilled people and contacts must be developed and maintained. People on the ground will be vitally important in obtaining and developing knowledge and opportunities. The major accountancy firms have invested heavily in people and networks so that they are in a pre-eminent position to help potentially successful firms. Their knowledge of the industry, the local culture and regulations, enhanced by a pan-European network of offices working to the same high standards, ensures that they can provide practical and timely solutions for business.

For the chief executive in search of sound, businesslike ideas and assistance, these leading firms act as a partner in business, legitimising and sharpening the executive's own thinking, creating innovative solutions, and maintaining a confidential long-term relationship. Major accountancy firms have four great strengths in the provision of advice and services:

- Consistent quality — clients have access to high quality people and products both geographically and by service area
- International network — ability to keep abreast of developments as well as to deliver a consistent service worldwide
- Breadth of skills — leading firms offer a range of professional disciplines from accountants and actuaries to IT consultants, tax specialists and insolvency practitioners
- Depth of experience — the range of skills combined with industry experience, and focused by active insurance and reinsurance groups, allows knowledge to be pooled and products/services to be developed as appropriate to the needs of the insurance sector.

These strengths can be harnessed and used to the competitive advantage of insurers in developing and expanding knowledge, devising and advising on strategic issues, and implementing business solutions. Firms like Coopers & Lybrand Deloitte providing 700 offices worldwide (300 in Europe) with 65 000 partners and staff, have invested heavily in developing international networks and groups. This means specialists on the ground who know the industry; the local culture; the way that business is done and organised. Partners and staff in major firms have extensive knowledge of the market-place — built up through client relationships, and investment.

They are also used to working in multi-disciplinary teams, under the direction of an experienced partner. A team is able to advise and assist executives from the business strategy research and formulation stage through to implementation of, for example, a management information system, simply by changing members of the team to bring in the appropriate skills. This has advantages for the client in that advisors are easy to brief, client integrity is secure as knowledge is kept to one firm, a relationship is formed, and costs are limited due to progress along a learning curve and certain economies of scale. Leading firms can draw on a range of skills and disciplines:

Audit and accountancy: including statutory and regulatory reporting, acquisition and interpretation of financial data, and advice on solvency requirements; a multinational firm can give professional insight to the local insurance markets.

Personal and corporate tax planning: advice on issues such as local tax regimes, future tax reforms, capital structure, intragroup charging, tax haven companies, captives, value-added and sales-taxes and international tax-planning. Major firms have established networks of European tax specialists to provide services and co-ordinate skills in this complex area.

Corporate finance: including strategic studies, target searching, mergers and acquisitions, due diligence, business valuations, share issues and listings, and financing advice. Groups such as Coopers & Lybrand Deloitte's EUROMAS group are in a unique position to support such transactions and provide independent advice as to the opportunities and costs of purchasing existing operations or setting up a branch or subsidiary network.

Managerial consultancy: such as business strategy, systems review/controls/implementation, information technology, human resources, and cost reduction techniques. Local consultants are able to pool their knowledge to consider and implement critical factors in the development of European insurance business.

Actuarial and benefit consulting: including input to product design, claims assessment, premium rating, measurement of value added to life companies, and management information systems. Life and non-life actuaries in the firm have much to offer in terms of technical and commercial expertise.

Insolvency services: support and advice in competitive, fast-moving markets. Liquidation, administration, and corporate reconstruction are situations where firms like Cork Cully offer resources and experience. Run-off support, reconstructions and commutors are other areas in which support is available through special commutations groups like Coopers & Lybrand Insurance Services. ■

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