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Speech by
Seamus Brennan, TD,
Minister for Trade and Marketing

at the annual conference
of the Insurance Institute of Ireland

Galway, Friday 15 May 1987
9:30 am

I want to talk mainly about insurance in the wider national context, the context of Ireland's economy. I take that wider approach for two reasons.

The first is because the insurance business is a tremendously important part of our economy. Few people outside the industry realise just how important it is, and maybe not everybody inside it does either. The insurance industry's gross premium income accounts for over a tenth of our Gross National Product. In 1984, when the OECD surveyed it, it was 11% of GNP - the highest level of the 22 countries they looked at. Insurance is obviously a major player in our economy.

Looked at from the insurance industry point of view, it's very clear it must be doing something right. But looked at from the customer's point of view, that massive GNP figure only serves to confirm what everybody in Ireland already knows - insurance costs here are very high.

And that brings me to the second reason why it makes sense to look at insurance from the national viewpoint. Our economy is in deep trouble, but no-one can be in any doubt that we have a Government that means business and a public consensus that is fully behind the hard measures that have to be taken. We will get the public finances in order. But there's another, more important side to the economic strategy, the search for growth. Learning to live within our means is not enough. If we're going to make these very real sacrifices worthwhile, we must get the economy creating wealth again.

This is the top national priority, the ball we mustn't take our eye off. Ireland must grow, and it can do that only by selling more of its goods and services abroad. Exports are our lifeline, and one of the reasons we now have an Office for Trade and Marketing is because we're beginning to realise that Ireland is above all a trading nation, and our future depends on how good we are at selling abroad.

In looking for ways to encourage more exports, one of our strategies must be to reduce the costs that tend to make Irish industry less competitive and price us out of export markets. One of the most important of these costs is insurance.

The cost of employers' liability insurance in Ireland is way out of line with the cost of that insurance in other countries. Now I haven't come here this morning to wave a big stick about costs. Neither have I come in sackcloth and ashes, ready to admit that it's all the Government's fault,

and with the promise of magic wands that I'm going to wave all over the place. The truth is that neither of us can solve this problem on our own, but together I am confident that we can lick it.

The main reason I am here this morning is to make an appeal to the insurance industry to join in a partnership with the Government in an all-out concerted attack on insurance costs.

We have been thrashing around with this problem for far too long, and the progress has been negligible. The good of the country as a whole now demands that we grasp the nettle, and grasp it soon. Even as we talk here in Galway, we are losing export business because of these unnecessarily high costs.

We need to attack the insurance costs problem on several fronts at the same time, so that the changes feed on one another and add up to produce very significant, measurable benefits to the customer.

As part of this approach, I think the insurance industry needs to be a little more upfront in making the facts that affect costs a great deal better known - and considerably less coy about promising tangible benefits to the customer if changes are brought in. For instance, the public certainly do not want to learn that, if they surrender their right to a jury trial in personal injury cases, the savings that result will be so small as to be unrecognisable in practice. It is not easy to bring about major changes - particularly ones affecting vested interests - if the promised benefit from these changes is no more than the vague possibility of holding costs where they are.

As you know, the 1986 Courts Bill fell with the dissolution of the Dail. A Government Decision will be made shortly on its future.

In the meantime, the public needs to be made aware just how directly the present legal system bears on the costs of insurance, and just how directly the cost of insurance is a burden on our national economy.

We have to work together to create that public awareness, and not just with the aim of bringing about changes in the legal system. There is a general mood in Ireland that if the insurance pays, nobody pays - whereas the truth is, of course, that when the insurance pays, everybody pays. This gap in our awareness is perhaps best summed up by that startling statistic about accidents where a car is run into from behind. In Britain, one in every seven of those accidents results in a whiplash claim. But in Ireland, four out of every seven end up in that kind of claim. I believe that's because of a certain general attitude to insurance claims, and a legal climate that encourages it. But I am confident that all this can be changed, if we set our sights firmly on doing it.

Another area where we need concerted action is in trying to reduce the number of accidents that give rise to claims. A healthy insurance industry is in the business of reducing risks, not in running away from them.

I'm very much aware of what already being done to promote industrial safety and road safety, both by the State and in the private sector - and I applaud the progress that has been made. But that progress is not enough. We need to add considerably more impetus to this safety programme. We must aim to get results, within a short timescale, that will produce measurably lower premiums.

I'd like to sit down and talk over with the industry ways to promote safety more effectively, and to reward good safety

practices, without increasing the cost burden on the State - because frankly, the money isn't there to make a massive investment in this area. But I am sure there are effective ways of throwing brains, not money, at this problem. I am very open to your ideas on this matter of safety - especially on initiatives that would be carried out by the insurance industry itself. For my part, I will do anything I can to help moves of that kind.

If I seem subtly to be pushing the buck back across the desk to the insurance industry, let me remove the subtlety. That's exactly what I am doing. I'm not saying 'do it all yourselves', but I am saying that I need your help in bringing about change, and that the industry itself can be the engine of change in more ways than perhaps you think.

For instance, let's revisit the vexed question of legal costs. Ladies and gentlemen, it's you who write the cheques. Even under the present system, with all its difficulties, I feel sure there is scope to reduce the spending on legal fees - if the will is there to do it. I hope that in the national interest, you will begin to find that will. With legal costs accounting for as much as 20p in every pound of an insurance settlement, there must be at least some scope for you to begin calling the tune.

Again, if you are looking - as I hope you will - for what the industry itself can do, may I remind you that in every kind of business competition is what squeezes out the fat and keeps each player's eye on the main chance - which is relating to the customer's need.

Frankly, looked at from the outside, the general public do not perceive the insurance industry as being very much driven by competition. I think that's a bad thing, because I firmly believe that competition is the healthiest possible influence

in any business - and industries that do not have it, tend to turn in on themselves and shrink rather than grow.

The Irish insurance industry is not shrinking, but I cannot say I find healthy a situation where insurance cover threatens to become unaffordable for business or for the private individual. This has happened to some extent in Employers' and Public Liability business, and with some classes of motorists.

The implications are very serious. Indeed, the evidence points to a gathering crises in regard to Employers and Public Liability. Some Estimates suggest that more than 1 in 10 enterprises may have 'opted out' of Employer's Liability cover. Quite simply, the level - and, for some, the rapid increase in - premiums makes it more economical to take this risk. It is of course, a vicious circle. Higher and higher premiums are being extracted from a shrinking base. We cannot - and I certainly do not intend to continue to tolerate this situation. Workers are being put at risk. Jobs are at risk, And the Insurance Industry is losing out.

Similarly, the cost of Motor Insurance is being pushed well beyond the capacity of some people - and I would single out young people in particular - to afford. Those who can pay, are being penalized. For many, the temptation to ignore the law, and their responsibilities, altogether is too great. According to the Industry's own figures, 20% of all drivers - 1 car in every 5 on our roads - is uninsured. And the cost of uninsured driving is putting an average of £70 on each and every driver's premiums.

Let's stop this drift - it's in nobody's interest, least of all the interests of the industry itself. I repeat my offer of partnership - let's roll up our sleeves and do what it takes to attack these problems. There's a vast amount to be done on the Government side, and I pledge that there will be no shortage of energy from us. There's also a vast amount to be done by the industry itself, and I'm confident it has the foresight and the ability to play its part fully as well.

The news on the Insurance Bill is that it is in the works. I have completed my own examination of the Bill and I will shortly be making recommendations to the Government. I know that your representative bodies have also been looking at the Bill in some detail. I'd like to make it clear that I am still open to hear anything further that the Industry have to say on the Bill. But hurry!

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The general thrust of the Bill, is, as you know, to promote greater efficiency and order in the Industry, for the benefit of practitioners, intermediaries and consumers alike.

I don't propose to go over the Bill in any detail: it will be very familiar territory to most of you here to-day. But there are one or two areas that I would like to touch on briefly.

On the question of commissions for intermediaries, this is an area where the extent of the State's role will depend entirely on the arrangements the industry makes to regulate itself. If the interests of policyholders are disregarded, statutory controls could be used. Bigger commissions mean higher premiums or reduced benefits. In addition, excessive commissions are a temptation to sell business on the basis of the remuneration on offer rather than in the client's best interests. It was thoughts of this kind that led me to intervene recently when the existing agreement seemed to be abused. I'm delighted to see that through the auspices of the Insurers Federation, the life offices are working towards a self-regulatory agreement on commissions.

Now, finally, let's raise our sights and look to the outside world. Earlier I was talking about the crucial role the insurance industry can play in helping to make our exports more competitive. But of course the insurance industry itself has direct export potential, and this will increase as the services sector moves towards a situation of completely free trade. You can look on this trend towards freer trade as a threat or an opportunity. With my export hat firmly on I want to encourage you very strongly to regard it as an opportunity. And it is an opportunity that we can only grasp effectively from within a single European Market. That is why

I would urge you not alone to vote for the Single European Act, but to work for a Yes vote. Don't leave this task to the Politicians alone!

In looking for export growth as a nation, we must increasingly look to internationally traded services - and few services are as suited to international trading as insurance. Some Irish insurance companies already trade very effectively abroad, and this is a path that should be trodden by more players. The truth is that in the world ahead of us, there will be no such thing as a protected home market - either in goods or services - and no firm will be able to grow, and perhaps not even to survive, through relying on the home market alone.

There is a new world ahead of us, in insurance as in every other business. It is a new world in which Irish people can perform exceptionally well; we have nothing whatever to fear from the coming of free trade, provided we have the determination and the energy to grasp the opportunities. As well as determination and energy, it needs creativity - as, for instance, in the creation of new products.

Opportunities are there for those who look. Indeed, I have no doubt that many opportunities exist even within the home market - and it is important that they are taken up by our own companies rather than by the new competitors from abroad. One example that occurs to me off the top of my head is the question of professional indemnity insurance. This is a

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market that has grown up out of nothing in recent years, and it is about to get a further boost when insurance brokers are required to take out cover. I am told that brokers alone will pay £2½ million each year for this cover, and the other professions must make the total a very sizeable sum indeed. Yet I am also told that virtually all of this business has to be placed in London. Why? On the face of it, it seems very odd that Irish insurance brokers can't insure themselves here in Ireland. Is this an opportunity lying in wait for somebody?

This is an interesting and exciting time for the insurance industry. It has a major role to play in our national economic recovery, and I look forward to working closely with it in mounting that attack on insurance costs. It is also poised on the brink of an era in which national boundaries will dissolve, and in which the opportunities - for those who think in terms of opportunities - are almost literally boundless. As the industry moves towards that era, it will have the support and the wholehearted encouragement of the State. I wish you well.