

INSURANCE INSTITUTE OF DUBLIN

INAUGURAL ADDRESS 1989/90

BY

THE PRESIDENT OF THE INSTITUTE

MR HUGH D. GOVERNEY A.C.I.I.

AT

THE SHELBOURNE HOTEL, DUBLIN

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INTRODUCTION

Mr Chairman, Ladies and Gentlemen - Preparing and delivering any speech as many of you know is a daunting task. Preparing an Inaugural Address to this great Institute of ours - founded in 1885 as the Insurance Intitute of Ireland - is as some of you know a particularly daunting task. It is so not only because of the wonderful traditions of this Institute. It is daunting because of the need to say something appropriate and worthy of the occasion and something which is in keeping with the high standards and values of our Institute.

BENEVOLENT FUND

I want to take this opportunity first to say a few words about the Insurance Benevolent Fund which has been in operation for 60 years. Its purpose as we know is to look after the needs of our colleagues and their families who have fallen on hard times. Those of us who are now in well-funded Pension Schemes are hopefully protected from such misfortune. Others have been less fortunate.

The Irish segment of the Benevolent Fund is administered in an Honorary capacity by Mr Jim Doyle. All applications for assistance are dealt with sympathetically and with the utmost confidentiality by Mr Doyle with the able assistance of Mr Frank Linehan. At present the statistics for the Dublin area are

55 Beneficiaries

£46,000 in Grants in the past 12 months

£12,000 in Loans the past 12 months

Total Proceeds from our Members - £14,000

Irish people young and old are well known for their generosity. Any suggestion that this was a myth has been dispelled by the outstanding success of Bob Geldof's Live Aid Programme and Self Aid.

I want to pay tribute to Messrs. Doyle and Linehan for all that they have done to ensure that those who need help receive it and also to the Dublin Insurance Athletic Society and our Office Representatives Committee for their great efforts which have helped to raise some thousands of pounds in recent months.

I take this opportunity to appeal to **all** members of the Institute and others involved in insurance in Dublin and to their Employers to respond even more generously than they have in the past on Charities Day 1990.

EDUCATION

The achievements of this Institute and its Officers, Tutors and Students in the past year have been outstanding if judged by success in the Chartered Insurance Institute Examinations. This is, I believe, a good measure of how the Institute is preparing its members - particularly its younger members for the changes which are currently taking place in our Industry and which will accelerate in the very near future.

In 1972 three New Fellows and fifteen Associates were elected from this Institute. In 1979 four New Fellows and 18 New Associates were elected.

Last Autumn my predecessor in Office - Dominic Dowling - conferred 13 new Fellows and 60 new Associates - a record for the Institute.

Some weeks from now I will have the pleasure of presenting fifty Associateship Diplomas and five Fellowship Diplomas to members of this Institute.

In the early part of the summer the Institute held Language Classes for its members. The languages taught were French, German, Spanish, Italian and Japanese. A total of 150 attended these classes. We salute our Honorary Education Officers Mr Larry Humphreys and Mr Paddy Finn and Mr Joe Whelan who is now performing the same role at National level and all of the Tutors for their dedication and for the successes they have achieved.

SYLLABUS 1989/90

To help all of us focus on the challenges and opportunities which are in store for us the overall theme of this session's Lectures is "An Environment of Change in the Insurance Industry". I felt that this theme was appropriate and timely bearing in mind that 90 days from now the bells of cathedrals and churches throughout Ireland will ring in the 1990's. By the end of that decade we will be **fully** integrated members of the European Single Insurance market. Speakers from Ireland, U.K. and Continental Europe will address the Institute on topics ranging from

- **The Future of Marketing in the Insurance Industry**
- **The Future for the Irish Insurance Industry in the changing international environment**
- **Developing Overseas from an Irish Insurance Base**
- **Insurance in the Financial Services Centre**
- **Recruitment & Training - The Way Forward**

Having assembled eminent speakers on those and other topics to address to us during the session it would be inappropriate of me to touch now on any of these areas. However I feel it is not only appropriate but necessary that I should talk this evening about the **Role of the Institute in the Environment of Change** with which we are all faced.

ROLE OF THE INSTITUTE IN AN ENVIRONMENT OF CHANGE

I expect I am not the first President to speak at an Inaugural Meeting about an environment of change. Indeed I may not be the first to speak about the **Role of the Institute in an Environment of Change** which is the main theme of my paper this evening.

One of the newspaper cartoons which made the biggest impact on me was that of two Parisian Gentlemen sitting at an outdoor cafe agreeing that despite the election of a Socialist Government everything was exactly the same. In the background was the Eiffel Tower was standing on its head !

I hope that all members of this Institute are fully conscious of the changes which are taking place in our industry and the even greater changes which lie ahead.

WHAT IS THE ROLE OF THE INSTITUTE AND WHAT IS ITS ROLE IN THE ENVIRONMENT OF CHANGE WITH WHICH WE ARE FACED ?

There are many views on what is and what should be the role of the Institute. Perhaps the role of the Institute is confused and confusing particularly in today's highly competitive environment.

OBJECTS OF THE INSTITUTE

What are the facts ? The facts are

That the Institute has a number of very specific Objects including

1. The provision and maintainance of a central organisation for the promotion of efficiency, progress and general development among persons engaged in Insurance with a view to rendering the conduct of such business more effective, and securing and justifying the confidence of the public.
2. Collecting, collating and publishing statistical and other information of service or of interest to members of the profession.
3. Forming a strong body of expert opinion with a view of obtaining the codification and amendment of Acts relating to Insurance Companies, or otherwise relating to Insurance, and to watch any legislation affecting Insurance.
4. Assisting necessitous members, and the widows and children and relatives of deceased members.

The role of the Institute is **not** confined to matters educational. If that were the case the Institute while fulfilling a very important function would be relatively sterile in the context of today's marketplace.

CHANGED ECONOMIC ENVIRONMENT

Fifty years ago Europe was at war. Ireland was neutral. Today Europe is at peace. Ireland remains neutral. However Ireland, its people and its economy have gone through enormous changes in the intervening years; the insurance market too has changed dramatically.

INSURANCE ACT 1936

Fifty years ago the Insurance Act 1936 was in its infancy. It, in line with a great deal of Irish legislation of that time was protectionist - protective of established Insurers - particularly Irish or "native" offices as they were known.

The legislation quite effectively prevented any new foreign Insurers entering the Irish market. It also required existing Insurers here to decide whether to underwrite Life or Non-Life business in the future. They could not do both.

Furthermore it was not possible for a "foreign" company to obtain a licence to transact any class of business other than those classes transacted prior to implementation of the Act.

In the mid-1950's/60's a spate of mergers and takeovers in U.K. reduced the number of General Insurers operating here from thirty-four to seventeen.

MARKET PROFILE 1938/39

Market statistics for 1938 - published in 1939 showed that the total Premium Income generated in the Republic was:-

Life £4.1m.

Non-Life £1.6m.

The market then was relatively stable. There was competition within the market but it was of the civil and civilised variety.

INSURANCE TARIFFS

To make matters worse or better (depending on your biased view) the Non-Life Insurance market was heavily laden with tariffs which set down minimum rates and maximum discounts for many categories of risk

- **Engineering**
- **Fire**
- **Loss of Profits**
- **Motor**
- **Workman's Compensation**
- **Horse Drawn Vehicles**
- **Petrol Pumps**

In the 1970's and 1980's we witnessed the dismantling of tariffs. The Employers Liability Tariff was scrapped in 1972 followed by the Motor Tariff in 1975.

One by one the Tariffs disappeared until eventually on 30th September 1985 the Fire Tariff was finally disbanded, leaving no remaining tariffs.

E.C. FREEDOM OF ESTABLISHMENT ETC.

Following on Ireland's entry into the European Community the market saw the dropping not only of tariffs but also of barriers to new Overseas Insurers entering the market under the terms of the Freedom of Establishment Directive. **Immediately prior to implementation of that Directive we had seventeen General Insurers here. Within five years of implementing the appropriate Establishment legislation we had eight new Insurers whose ultimate Parents were from the U.K., Continental Europe and U.S.A.** The impact on the market was much greater than the numbers might indicate. The **capacity** of some of these new Insurers was enormous. Their **appetite** for business was even greater.

In addition, on large risks it is already possible to place cover anywhere in the European Community. Shortly the same will apply to medium-sized risks.

LIFE ASSURANCE

Changes in the Life Assurance Industry in Ireland have been somewhat slower. In the 1930's **Irish Life** was formed and a number of U.K. giants notably Prudential, Pearl and Refuge ceased trading in Ireland. Thus it was that right up to the 1970's there were only two Irish Companies and twelve Non-Irish Companies, transacting Ordinary and Industrial Life Assurance. Since then licences have been granted to eight additional companies having their Head Offices in Ireland together with three additional Non-Irish Companies.

We now have a total of twenty-five Life Companies in Ireland with at least two more licences being processed.

BROKERS

In the 1930's there was a very small number of professional Insurance Brokers. They had not yet made a **significant** impact on the overall market. The norm at that time was to be insured through part-time agents or direct with Insurers.

In the 1950's/80' Brokers went from strength to strength. Many experienced and highly qualified personnel moved from the underwriting side of the market to the broking sector.

1989 - MARKET TOTALLY CHANGED

As a result of **all these changes** and the increased level of competition conditions in the Irish General market are now unrecognisable when compared with those which existed in 1939.

Insurers worldwide strive to achieve, maintain and improve their profitability. In Ireland this is not an easy task for a variety of reasons not the least of which is a social, economic and legal environment which could at best be described as incompatible with the achievement by Insurers of their aims.

Brokers too are part of the Insurance market and they too try to achieve and maintain a level of profitability which will enable them to grow and expand at home and overseas.

How nice it is to see here this evening so many past Presidents of our Institute including my great friend and mentor Mr Paddy Cowman who was President of the Insurance Institute of Ireland on three occasions.

SINGLE MARKET - INSURERS, BROKERS AND REINSURERS

Paddy Cowman influenced the careers of many in the Insurance Industry in this city - indeed in this country - but none more so than mine. His wisdom is well recognised by all who know him and greatly valued by those of us fortunate enough to have worked with him. One of his most telling analogies was that the Insurance market is like a pond in which all of us fish - Insurers, Brokers and Loss Adjusters - and if any one of us is responsible for polluting that pool we all suffer.

In his paper at the Chartered Insurance Institute Conference in London last month Dr. **Fedor** Nierhaus of Munich Reinsurance Company referred to the fact that "the unique safety system provided by Insurers, Brokers and Reinsurers can flourish only if all sides respect the others' interests and do not try to pursue only their own ends. **All of us will successfully cope with the future if we see our common interests and do not forget that we need each other and will depend on each other in the future**". These words and no others were repeated at the end of the Conference by the President of the Chartered Body Mr Michael Bewes.

If the Institute has a role to play in helping to resolve today's market difficulties it must surely be in encouraging our members in **all** sectors of the market to come with an openness of hearts and minds and to debate openly and honestly the difficulties and differences which at present overshadow important areas of our business and to see how they can be resolved.

CODE OF CONDUCT

The Code of Conduct of this Institute among other things says that

1. "membership of the Institute is a privilege which carries with it duties and a responsibility to maintain the highest standards of professional conduct, thus upholding the reputation of the Institute and the good name of insurance".
2. "The business of insurance is founded on the principle of utmost good faith. This should be the dominant principle regulating the conduct of all members".

At last months Chartered Insurance Institute Conference a Special Resolution which read as follows was passed unanimously:

"This Conference believes positive steps should continue to be taken by the Chartered Insurance Institute to exercise supervision and control over the professional standards and conduct of its members as laid down in Article 3(d) of the Supplemental Charter."

We put ourselves forward as Insurance Professionals. If we do it is essential that in the conduct of our business we behave in a thoroughly professional manner.

Is it right or sensible that the Institute should be used solely as a vehicle to obtain a professional qualification which is internationally recognised but with no professional accountability thereafter ?

All of us whether Fellows, Associates, Chartered Insurers, Chartered Insurance Practitioners, Senior Ordinary or Student Members need to be reminded from time to time of the Code of Conduct. At this time of intense competition when there are great pressures to obtain and retain business the Institute's Code of Conduct should be very much in the minds of those who are in a position to influence the course of events in our great Industry.

Those who are found to be in breach of the Code of Conduct should be reported to the Institute and dealt with as appropriate. What is the point of having a Code if when it is not observed it is ignored by all ?

UTMOST GOOD FAITH

Utmost Good Faith is the cornerstone of our business. We are all bound by that great standard in all that is to do with the arranging of Insurance Contracts. Indeed I believe we are all **proud** to be involved in a business which is based on such a standard. The pressures to which I have referred seem to make it more and more difficult for many to work on the basis of Utmost Good Faith. By this I do not mean to imply that there is any (deliberate) withholding of material information by Insured, Broker or Insurer. I **do** believe however that the standards of business ethics which pervade our business are not as **high** as they were in the past - **or as high as they should be.**

In his paper to the 1989 Chartered Insurance Institute Conference Mr Tony Brend - Chief Executive of Commercial Union Group said

"The earliest principles of mutual trust and utmost good faith have stood the tests of time **but there is gathering evidence that they are beginning to be challenged selectively and are no longer certain of uniform application.** We must recognise this erosion of basic precepts and take action to encourage responsible consumer attitudes by ensuring that we **are both understood and appreciated for the services we offer and for the way we conduct our business."**

COMPETITION

Am I naive to think that we would have a better and healthier Insurance market if Insurers, Brokers and Insured were all more decisive and direct with one another? Would it be unreasonable to expect for example that an Insurer who holds a risk through a certain Broker should negotiate only with that Broker unless and until the Client had **decided** to **appoint** another Broker. None of us I believe should be upset or embarrassed by arrangements of this kind. There is precedent for it in this and in other markets which have greater stability and few problems than our small market.

Is it old-fashioned and now unfashionable to speak well of our competitors who we know to be professional and efficient? Is it better to try to undermine confidence in our competitors at **every** available opportunity and in doing so undermine confidence in the entire Insurance market?

I do not believe that we do the Insurance market or Consumers any good at all by constantly knocking, criticising and trying to dislodge those who we know to be doing a good and professional job.

Let me be absolutely clear - I believe in a free market and in free competition. I do not believe that the groundrules to which I have referred are in any way incompatible with competition or with delivering an efficient and cost-effective Insurance service to those who keep us all in business - the customers!

On the contrary - I believe that if we **all** devoted more of our efforts and energies to inspiring trust and confidence generally in the Insurance market - in praising the excellent and challenging the poor performers - we would have more time to devote to those who have entrusted their Insurance affairs to our care - the customers.

Surely this must be even more important than ever in the context of the Challenges and Opportunities presented by Freedom of Services within the European Community.

EFFICIENCY OF INSURANCE MARKET

INCREASED EFFICIENCY ! REDUCED COSTS ! BETTER VALUE FOR THE CUSTOMER !

All admirable objectives; objectives which must be actively pursued by all involved in business as we move rapidly towards the 21st century. Each of us as individuals and each firm within which we operate will already be pursuing these Objectives with varying degrees of determination and speed. But are we pursuing them as an Industry ? I believe not. Perhaps as an Industry we are too big, too disjointed, too diverse and too competitive to address these issues with single-minded determination.

EFFICIENCY

Perish the thought that any independent study would be carried out and published on the **efficiency** of the General Insurance Industry. I do not believe the Life Assurance Industry would be found wanting to the same extent.

One thing is clear there will be **no future** in the European Open Market for any segments of the Insurance Industry in this or any other Country which are less than efficient or which engage in practices which are out-moded. Technology is already playing a vital role in breaking down the frontiers of inefficiency within our Industry. It will play an increasing role in the future but technology alone will not provide **all** of the answers.

INNOVATION/CREATIVITY

Apart from the instinct to **survive** , all participants in the Insurance market must have a tangible **incentive** to be innovative and creative. Such innovation and creativity may well be the key not alone to the **success** but to **survival**.

ROLES OF INSURER/INTERMEDIARY

Perhaps we need to define or re-define the roles of the different participants in the market. What is the primary role of

The Insurer ?

and what is the primary role of

The Intermediary ?

In defining these roles we will find that in some areas the lines have become blurred and need to be re-drawn. There may be a number of functions which are currently being duplicated unnecessarily and therefore unproductively; they must be identified and eliminated.

There may be functions currently being performed by Intermediaries which would more appropriately be carried out by Insurers, and vice-versa.

There is no room for double-counting. If we do not identify and tackle these problem areas the diagnosis and treatment may be taken over by others.

THE MARKET AND IT'S IMAGE

When speaking to the Corporation of Insurance Brokers of Ireland in 1982 and referring to the market conditions I said that "these are challenging times". They were then and they are even more so today.

While the opening up of the market was not only desirable but necessary the dropping of all tariffs and extraordinary increase in capacity and competition changed utterly the face of insurance in this country. It will never be the same again. None of us should wish or expect it ever to be the same again. But - could it improve ? I believe there is great scope and need for improvement not only in the market but in how it regulates its affairs and how "others" - consumers (both personal and corporate) - and legislators view the insurance market.

PUBLIC IMAGE

We have all been saying for years - ad nauseum - that insurance has a very poor public image. It has probably always been true as far as the man in the street is concerned, and not without justification. However in the area of Personal Insurances - whether Life, Householders or Motor - it is my belief that the average consumer now is far happier than he was in the past - because now he has a great **choice** of products and sees evidence of **real** competition. This is very different from the days not so long ago when because of Government control of Motor premiums there was virtually no competition in the market.

SWITCHING OF BUSINESS

If the private consumer **feels** better because of this new competition is he **really** better off ? Is there not significant scope for further improvement ? I believe there is - I believe the consumer would be better off in terms of price and service and the insurance market would be more profitable and healthier if we had more stability and less switching of Policies between Insurers.

What is the total cost to this small market of the movement of customers from one Insurer to another ? On the Private Motor account one hears of lapse ratios ranging from 25% to 35% ? The cost of this to the insurance market and therefore to the consumer must be enormous.

The same factors are prevalent in the Corporate Insurance Sector - with premiums being chased upwards and downwards in vicious spirals.

I am not in favour of any cartel type arrangements but surely responsible Insurers must see that swapping customers - you win some and you lose more - is a very expensive exercise.

SCIENTIFIC INSURANCE RATING V GAMBLING

We used to read in the textbooks of the difference between insurance and gambling. We also learned that insurance rates and premiums are scientifically calculated. In some areas of our market today it is difficult to distinguish between insurance and gambling. It is equally difficult to believe that all rates and premiums are scientifically calculated. How do we explain 50% rate reductions from the same Insurer for the same risk with the same claims record ?

GOVERNMENT SUPERVISION

Government is determined to keep down the cost of insurance even though insurance is not subject to price control. At the same time Government is responsible to supervise the solvency and health of the Insurance Sector. Is there a conflict of interest ? We cannot have it both ways - high claims costs, low premiums and a stable insurance market ! **The area to be tackled is a reduction in the incidence and cost of claims.**

RISK IMPROVEMENT BY INSURERS AND BROKERS

While a number of important elements in the cost of claims are totally outside the control of Insurers - and certain interest groups are determined to keep it that way - surely it would be more productive if some of the time, energy and money currently being spent by Insurers in swapping customers was spent in pursuit of **real** improvement in the quality of their portfolios. Brokers too - by convincing clients of the need for stability and continuity - have a key role to play in this area.

MANAGING MARKET CYCLES

Are we managing the market cycles well ? I believe not. I will go further and say that I believe the manner in which the market has dealt with upward and downward trends - and I include Brokers in this statement - has caused serious damage to the image and reputation of the market. Insurance buyers have in recent years seen such extraordinary upward and downward swings and such dramatic premium reductions **in the face of competition**; reductions which were completely out of the question before then - that their confidence in the integrity of the market and of those who participate in it is badly damaged. **It will take many years of truly professional performance by the market to repair the damage and to restore confidence.**

INSURANCE ACT 1989

We have earlier this year seen the passing into legislation of the Insurance Act 1989 which gives very wide powers to the Minister with responsibility for the Insurance sector. In recent months we have seen the Minister exercise some of his powers under the Act. Probably because this was a new phenomenon **and** because it came so quickly on the heels of the passing of the Act itself the Ministerial order sent shockwaves through the Insurance Industry here and in other European markets.

Governments and Ministers have many important and difficult matters to deal with. They tend only to become involved in matters relating to the control or regulation of specific industries if they feel this is in the public interest **or** if they form the view that the sector is incapable of governing and regulating its own affairs. It is to be hoped that in the very near future the insurance market - Insurers and Brokers - will be able to satisfy legislators that we are not alone **capable** of regulating all aspects of the insurance market but that we are **anxious** and **determined** to do so.

It **cannot** be in the interests of the Insurance Industry in this country (or of those who are served by the Industry) that control is taken away from the Industry. Insurance professionals in all areas of the market must strive to bring about and maintain good order in the market without in any way diluting the essential competitive nature of our business.

It would be inappropriate for me to comment further on recent developments in the area of regulation other than to refer again to the fact that one of the Objects of the Institute is to

" form a strong body of expert opinion with the view of obtaining the codification and amendment of the Acts relating to Insurance Companies, or otherwise relating to Insurance and to watch any legislation affecting Insurance.

Before action is taken on any of these matters it is essential that we **"collect, collate and publish"** all relevant facts and statistics so that the problems and the extent of the problems are clearly identified. Only then can we start to work towards achieving solutions.

ROLE OF THE INSTITUTE

Improvement in our insurance market will not occur if we just talk about it. **It will only happen if we as an industry take action.** This Institute is prepared to play its part in ensuring that the way in which we all conduct our business will secure and justify the confidence of the public. It is not any part of the role of this Institute to get involved in any of the commercial aspects of our business. However our stated Objects demand that we take whatever steps are necessary **to secure and justify the confidence of the public in the insurance business.**

As the Insurance Institute Movement in Ireland is the only one which fully embraces all elements of the industry equally - Life and Non-Life - perhaps the time has come for it to play a more active role in identifying problems and opportunities for improvement in the general conduct of our business so that public confidence can be justified and restored.

Some may say it is **not** the business of this or any other Insurance Institute to become involved in any of these problem areas. I will not take issue with them if it is clear that other bodies are ready and willing and able to address the problems in a professional and determined way.

I do not believe that this Institute or any other Institute should at this critical stage of development of our insurance market stand aside from the great problems with which we are already faced, problems which will be even greater in the years immediately ahead.

Our Constitution and our Code of Conduct not alone permit us to deal with these matters - **they require us to !**

HUGH D. GOVERNEY A.C.I.I.
PRESIDENT - INSURANCE INSTITUTE OF DUBLIN : 1989/90
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