

ADDRESS TO

THE INSURANCE INSTITUTE OF IRELAND

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"A NEW DECADE, A NEW OUTLOOK

- A BROKERS PERSPECTIVE"

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INTRODUCTION

I very much welcome the opportunity to speak to the Insurance Institute of Ireland today, representing as it does all sectors of the insurance industry as an education forum. I propose to talk this morning about the changing scene as we enter the 1990's against the backdrop of the European Community and all that's happening there. I will broadly refer to the position within the insurance sector in Ireland and the opportunities from a brokers perspective and where we may have particular advantages.

COMMENT ON CONFERENCE THEME

Before I get too immersed in what I'm going to say, however, I would just like to make two comments on the theme "Wider Horizons for the Insurance Professional". When we talk of 'wider horizons' we should not only consider the view from this side of the Irish Sea and the opportunities that one might expect from exploring new territories; we must also be conscious that Ireland will be within the vision of 'outsiders' as part of their wider horizon and therefore a threat in the form of more competition at home for us. The second point I'd like to make is on the term 'insurance professional'. What exactly is an insurance professional? I suggest in this context the term 'professional' should conjure up a picture of some person or some business who is very, very good at what they do and will be doing in this new decade. It may differ from the dictionary definition of a professional as "... one belonging to a profession or one who plays

for money ...". On reflection perhaps some of us do play for money and of course we do employ members of professions to help us run our business. Nevertheless the Conference theme, I suggest, is telling us that to survive in the 90's we've got to be good, very good, whatever sector of the insurance industry we happen to be operating in.

### 'EUROPEAN' BACKDROP

The dynamics of the marketplace in which our customers and potential customers strive for business are driven by market forces. The most powerful of these forces is legislative change driven in turn by political change. The insurance industry in Ireland is awakening to the realities of what membership of the European Community really means. I am not necessarily referring to the effect the Single Insurance Market will have when it does arrive sometime in this decade. Important as that will be, there are wider implications for us, as members of the European Community. The E.C. is going through a dynamic phase of very radical change and we are living in a very competitive world. We know the fierce competition in our own business but we mustn't overlook the fact that our clients are also locked on a competitive treadmill. This will become increasingly relevant as the disciplines of the European market place, in goods and services, begin to bite. Much of what is happening in our legislature derives from Brussels and will affect the pattern of risk which surrounds our clients and potential clients in industry and commerce. Just to make the point about what's happening and about disciplines, the following is a random sample of the kind of issues that are presently occupying the minds and time of officials in the E.C.

Company Annual Accounts and their publication in E.C.U.'s

Direct Taxation

State Aid

Movement of Goods

Community Transit

Business Travel

Emergency Telephone Numbers

Venture Capital

Toxic and Dangerous Waste

Air Transport

Health and Safety

Carriage of Goods by Road

Credit Institutions

Insider Dealing

Measurement

Product Liability

Tobacco Products

V.D.U.'s

Municipal Waste Water Treatment

Plastics

Liability for Services

Then of course there are the very topical environmental issues.

Since 1973 the E.C. has adopted over 100 legislative texts

concerning the environment and many more are on the way including

- the establishment of a European Environment Agency to provide an objective source of information,
- a major revision of existing Directives on the collection, transport, storage and disposal of waste, and
- plans for a system of civil liability for those who cause environmental damage or personal injury with industrial waste

The relevance of all these European disciplines is that they will impinge in one way or another, directly or indirectly, on our business through our clients and we will need to understand the implications of all new legislation from Brussels. It is a continuous on-going development, and we, as professionals, will need to keep informed, by study and research, on all relevant issues, if we are to respond effectively to the needs of clients in this new decade. What is happening is obviously of great concern to the Insurance Institute of Ireland and the C.I.I. Training and education no longer can be regarded as an optional extra for the staffs of the more enlightened employers. It will be a 'must' in this new decade and I urge the relevant bodies to exert all the pressure they can to bring employers and their career staffs to the realisation that knowledge is power. Our industry is seeing the effects of technology and although we will always be a 'people' business, numbers employed will drop as machines replace people for routine type work. There will be a need for the highest standards in our work-force and this can only be achieved through education and training with appropriate rewards.

#### A SINGLE INSURANCE MARKET - WHEN?

The plan for a Single Insurance Market is part of what belonging to the European Community. means for us. It is obviously a very important goal for us as insurance practitioners, but I cannot see a single market in insurance by 1992. (The only relevance that year will have for some of us is that the Olympic Games will be held in Barcelona!). Of this I am sure, the Single Market will come sooner or later in this decade and the sooner the better according to Sir Leon Brittan, Vice President of the European Commission. Addressing

the Irish Financial Services Industry Association in Dublin in February, Sir Leon had this to say.

"It is because I am convinced of the immense importance of the insurance industry and its potential that I want to press on as fast as I possibly can with the creation of a true single market in this traditionally fragmented sector. There is a certain amount of catching up to be done by comparison with banking, particularly to reach the stage of a single insurance licence, and we are currently working hard to develop the necessary proposals to take that crucial step".

And he went on to say that the relative lack of progress in insurance can create difficulties for our industry, as banks and other financial institutions have a wide range of investment products, some of which are increasingly difficult to distinguish from insurance products. Therefore, in a certain sector of our business we will lose market share if the single insurance market is delayed. Nevertheless, in spite of this urgent desire for harmonisation in European insurance, it is sobering to reflect that the U.S.A. after 2 centuries still does not have a single insurance market!

WHAT BUSINESS ARE WE IN?

Whether we have the Single Market in 1992 or '93 or '95, I think we will see in this decade a competitive and free insurance market. This, in the context of all the other developments in the E.C. will focus the mind on the 'wider horizons' and the excellence that will be needed to survive and prosper. One of the features emerging from the new scene will be the need to define exactly the business we are in. This may sound elementary but the speed at which change is happening requires us to stop and ask ourselves precisely "what are we going after?" 'Insurance' covers a wide area, although, at the same time, it doesn't deal with many of the issues in the 'risk' area that confront some buyers today. We may know this but are we equipping ourselves to offer the additional risk services that will be required? It must be a sector for potential growth. Many of these risk issues will become of increasing importance in this decade as our customers and potential customers strive for business in the new Europe. To revert, however, to 'insurance' and the necessity to define the business we're in. Insurance as we know it embraces

- 'General' or non Life
- and
- 'Life'

'General' can be further divided into commercial/corporate business and personal lines. 'Life' includes pensions, group life, permanent health, investment business, etc. A further spread of risk is then achieved in both sectors by means of 'reinsurance'. So we can see that 'insurance' is really concerned with three different businesses, within each of which there are further divisions that

prompt different business strategies. Finally, in this scenario, the broker performs as a vital complementary independent *AND PROFESSIONAL* intermediary in the marketing and distribution network within each sector of the industry. It is with the future, from the brokers perspective, that I am really concerned. As a generality, the broker depends for his survival on two ingredients - the client and the insurer. I think we are agreed that he certainly needs his client (who, incidentally, may be an insurer) but there may be occasions where the broker may recommend alternatives to the traditional involvement of insurer in certain instances. The insurance company scene is also changing and already in Ireland we've experienced the move towards more European involvement. Banks, building societies and insurers are forming alliances, one of the main objectives being to improve distribution channels, and already some U.K. insurers are forming associations with continental insurers to sell each others products in their domestic markets.

#### WHAT ABOUT THE CLIENT?

Before I develop the broker involvement I want to say a few words about the most important element in the equation - our client, the buyer. What does he want and what will he expect from the insurance market in this new decade? His needs will vary according to his circumstances. The meat processor, the manufacturer, the exporter all want the best price when buying insurance. They want other things as well, but they want to know that they are not paying more than their European competitors for their insurances, thus putting their products at a competitive disadvantage. Of course there may be very valid reasons why his European counterpart is paying less, *but*



We must help to equalise the insurance overhead. Increasingly the client will be looking for extra services from his broker and it is in these areas that opportunities will arise in this decade. The smaller domestic business will continue to rely heavily on personal service and relationships. So basically the buyer's requirements will see little change - he wants the best price and the best advice, but more of it. Competition for our clients will become tougher in the new Europe.

#### THE NEW ENVIRONMENT

Having considered the overall scene, the question arises as to what particular problems face the insurance practitioner in Ireland as he enters the '90's. The Insurance Act 1989, (and with Part IV due to be enacted shortly) symbolises, in a way, what is meant by membership of the E.C. for our industry. It is a process towards rationalising insurance legislation to bring us closer to the E.C. model. We were reared in the tradition of the London market and how Edward Lloyd started it all with his coffee and contracts in 1688. We now know that other European Countries were developing their own laws and customs and insurance markets. Enormous efforts are being made to harmonise and to 'level the playing fields' in the entire financial services area in preparation for the Single Market. (The Act, I think, has done a reasonable job in the control of both insurers and brokers). Our new insurance legislation, inter alia, has institutionalised as it were, three classes of intermediary - the tied agent, the independent agent and the broker, in both the 'General' (Non Life) and 'Life' sectors.

There is of course another method of distribution - direct selling by insurers, but I don't intend to enter that sensitive arena this morning. I will also leave aside the subject of the 'tied' and 'independent agents' and concentrate on the 'broker'. What are his prospects as he enters this new decade? Does he have to change his outlook? I believe he does and many are well down the road in preparation for the changing scene. Again, some brokers have been active in Europe, the U.S. and elsewhere for some time through their parent companies or other affiliates, servicing clients who have operations in many territories. That has been a useful learning exposure for some and equips them, to a certain extent, for the demands that the European dimension will bring.

It is difficult to profile, with any accuracy, the broker market in Ireland. <sup>to-day</sup> It will <sup>however,</sup> become possible, when the effects of the new Act and regulation takes effect, and we are probably looking at 1000 businesses that describe themselves as 'brokers'. As a general observation there are perhaps three categories, large, medium and small. The larger broker tends to be part of a major international network, although this is not always the case. At the other end of the scale is the smaller broker who services a geographical area or a particular class of business. Then in between both ends of the scale is the medium sized broker, whose clientele is a varied mixture as to size and location and with varying demands in terms of service.

Taken in the European context, Ireland is a small territory but it has a comprehensive insurance network and a very competitive broking scene. I believe, however, things will change during this decade, especially in broker numbers. The larger broker houses will gear themselves up to offer the full range of risk services. This may

involve mergers or the acquisition of medium or smaller sized firms. I certainly do not see the demise of the smaller or specialist broker. Again, it's a question of defining the business you are in and what the buyer wants. The smaller broker can be well-established within the local community, offering a personal service in all lines within certain premium levels on property, liability, personal lines, life, etc. He will not have the resources of the larger broker in risk services; his clients may not require such detailed attention. In the event that they do, these can be bought independently, or indeed, some insurers are now offering risk management advice as part of their services. The specialist or niche broker concentrates on a specific area where his expertise and knowledge can provide a distinct advantage over his more general competitors. Although the smaller broker will not have offices in the U.K. and continental Europe he can avail of facilities for linking up with similar sized offices, through international broker associations.

Turning to the larger broker, how does the future look to him as he enters the last decade of this millennium? What a thought! I see a particularly bright horizon for the independent professional broker. Perhaps 'broker' is a misnomer when you consider the many risk services (apart from broking and placing) provided by some broking houses embracing,

- Risk Management
- Claims Management
- Captive Management
- Safety and Health Reviews
- Claims Analysis
- Actuarial Services

- Contingency Planning
- Environmental Issues

and in the areas of personal financial planning and corporate pension business, the professional broker must have facilities to advise on all aspects of taxation and investment markets.

#### CAPTIVE INSURANCE AND DUBLIN AS A PREFERRED LOCATION

I've mentioned Captive Management as one of the services than can be provided by the professional insurance broker and it is therefore appropriate that I should comment on the new International Financial Services Centre (IFSC) in Dublin in that context. My company, Sedgwick Dineen, were the first to establish and manage a captive insurance company within the IFSC and indeed your President, Dick Power, had suggested that my talk this morning could be devoted entirely to this topic. However, on reflection, he agreed that perhaps a good deal had already been published by the IDA and others on the subject and that therefore Dublin as a Captive Centre should only feature as part of the professional brokers equipment in the context of wider horizons and the opportunities in the '90's.

The term 'captive' in relation to insurance is relatively new and perhaps owes its origin to Bermuda and the growth there of U.S. captives going back over 30 years. It is set up usually by a company to insure some or all of its risks, but there are variations. Some say that one of the reasons for setting up captives has been dissatisfaction with the insurance market, but that is not the full story. There are a variety of benefits such as

- Obtaining cover at lower prices
- Access to reinsurance markets
- Wider cover not otherwise available
- Consolidating group insurance programmes
- Closer involvement with risk control
- Tax

Many large buyers of insurance are taking higher deductibles and interest in captives has grown significantly. Brokers who develop a captive capability will find themselves in increasing demand in this decade. Although a hard market with under capacity and overpricing may have accelerated the growth of the captive market, it would be wrong to presume that, in the current soft market, the timing is wrong for considering the captive route. Because of the soft markets, the buyer has gained by saving premiums that can now be put to good use. In Dublin, as most of you will be aware, there is an impressive development on the banks of the Liffey 240 paces from O'Connell Bridge, due to be finally completed in 1993. Already A.I.B. have set up their international operations in the new centre and I believe somewhere in the region of 100 projects have been approved. We all know how Ireland has attracted manufacturing industry to locate here with tax incentives and grants, etc. and the Government has now extended these facilities to the financial services sector with the objective of

- Assisting in the inner city redevelopment of Dublin
- Providing jobs for a substantial number of well educated school and college leavers who would otherwise probably emigrate

The principal benefit of operating in the Custom House area is the 10% rate of corporation tax which is guaranteed to the end of this decade and has been approved by the EEC. Tenants will also be exempt from rates on local property taxes for ten years and will have a double deduction of rent for a similar period, etc. etc.

The advantage of Ireland for captives is likely to become stronger with the freedom to provide cross-border insurance. A recent report suggested that there will only be some 12 major European international groups able to provide multi-national service to industry. Apart from U.K. and Holland, most European countries require insurance to be placed with a licensed insurer. This requirement will of course disappear in the Single Insurance Market but only provided the company has a base in one of the E.C. countries. Captives outside the E.C. will therefore need fronting which may be difficult and expensive, as the major insurance groups merge. Hence Dublin would appear to have a distinct advantage for captives in this new decade.

In addition, the I.D.A. report interest from non European insurers who are not already tied into a particular member State market and who are considering locating their European insurance functions in Dublin. Obviously this would be a great achievement for the city as it would mean full scale underwriting and claims services with their attendant qualified staff requirements. We shall have to wait and see.

## CONCLUSION

I hope I have given you some food for thought within the theme "wider horizons for the insurance professional". I have been describing the scenario of what business will be like for us in the 1990's, and our business is all about people. They will require increasingly higher educational standards to compete successfully in the new decade. To quote from the C.I.I. handbook "The range and depth of knowledge required to deal successfully with the insurance problems of the modern world are considerable and, not surprisingly, our examinations are demanding. Those who succeed will therefore possess a diploma which is recognised throughout the world as the hallmark of a sound and comprehensive insurance education. The knowledge gained through study will also enhance career prospects and provide greater job enrichment". There are challenges and opportunities out there for those willing and able to hunt for business. Competition will be tough and it will be a case of the survival of the fittest.