EC 1992: What's All the Fuss?

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EC 1992 - What's all the fuss?

There are numerous dates which dot the historical landscape of Europe. Even Americans recognize many significant events which had positive effects on the subsequent development of Europe and its many nations:

- William the Conqueror's triumph at The Battle of Hastings in 1066.
- King John's signing of The Magna Carta at Runnymede in 1215.
- The storming of the Bastille in 1789.
- Napoleon's defeat at Waterloo in 1815.

But in recent memory, no future date has stirred as much positive interest, excitement and action in Europe and in the United States, as the rapidly approaching year of 1992.

1992 - What's all the fuss?

Treaty of Rome (1957)

To understand this question, let's briefly step back in time to 1957 when a group of six Western European nations signed the Treaty of Rome, creating the Common Market. We know it now by other synonyms: as ECM - The European Common Market or the European Community Market; as EEC - the European Economic Community; and as EC - the European Community or Communities. I shall hereafter refer to it as the latter, the EC.

The EC is now composed of 12 Member States: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxemburg, the Netherlands, Portugal, Spain and the United Kingdom.

The Treaty of Rome was the first effort to create a common or single market among these Member Countries, designed to permit the right of establishment and the free movement of capital, goods, services and people across EC Member's borders. Under these general rights, European insurers were free to provide services cross border, establish subsidiaries and branches in Member States, repatriate dividends and appoint management ... within the limits imposed by local law.

Apart from establishing a customs union, numerous national barriers remained, preventing the development of a genuine single European Market ... until June 1985 when...

White Paper (1985)

The Commission of the EC published a White Paper entitled "Completing the Internal Market." To the Commission, the need for further deregulatory action was evident. Continued high costs and other competitive disadvantages inherent in the separate national markets needed to be reduced. Internal barriers to free trade among Western European nations needed to be eradicated.

Having a branch or subsidiary operation in another country was useless if local regulations placed it at a competitive disadvantage with native operations.

The White Paper offered over 300 measures and legislative proposals designed to enable competition and free trade and a timetable for their adoption by 1992; it was endorsed by Heads of State and Government.

Single European Act (1987)

Momentum accelerated in 1987 with passage of the Single European Act (SEA) and its ratification by the governments and parliaments of all EC Member States. The SEA reaffirmed the objective of the single market and ratified the 1992 timetable of the White Paper.

By the end of 1988, 40% of the Commission's legislative proposals for "Services" were adopted. 40% are still under consideration, and 20% are being drafted.

So, what's all the fuss about 1992? 1992 is the deadline set for the complete elimination of all obstacles to a genuine single market within the EC. This Continental deregulation is designed to provide common standards for the regulation of national services and to increase competition, efficiency, consumer and corporate choices, and consumer protection.

The Deployment of Capital and Financial Services

Financial services are the lynchpin in the economy of a country. In the EC, financial services contribute 7% of the Gross Domestic Product (GDP). They provide substantial employment, generate net exports, and serve as the lubricant and source of capital for the rest of the market's economy.

The free movement of capital is essential to the process of its most productive deployment. The productive deployment of capital is critical to Europe's ability to compete effectively and efficiently in an increasingly global economy. This free movement and use of capital will better enable efficient European companies to increase market share in the financial service and industrial sectors, and expand employment over the long term.

Thus, capital must be permitted to move freely. At the consumer level, depositors, investors and policyholders need wide access to a full, unfettered range of financial products. This creates a competitive financial services environment, which, in turn, benefits the manufacturing industries which seek additional sources of capital to finance and sustain continued growth. Ideally, unrestricted capital transfer will enable a citizen of, say, Italy, to purchase British financial products and services, perhaps in Swiss francs.

The intention of the EC is that there will be no "national regulatory barriers ... obstruct(ing) freedom of establishment and free trade in services ... even after exchange controls are fully removed."[1] Common rules for regulatory supervision and consumer/investor protection are part of the strategy. The intended result is that

> …a bank can establish branches anywhere in the Community and offer its services throughout the Community; ... insurance can be bought on the most competitive terms and provide Community-wide cover; and a securities and capital market with enough capacity (can) meet European industry's financing needs and ... attract investors from all over the world.[2]

Freedom of Establishment and Free Trade in Financial Services

Freedom of establishment and free trade in financial services are the intended result of the three key agreements among member nations:

(1) Harmonized standards among EC Member Countries for the regulation of financial institutions and consumer protection.

(2) Mutual recognition of the professional competence of each Member State's regulatory bodies and the integrity of their supervisory standards.

(3) Acceptance of Home Country or Host Country control and oversight of financial institutions which operate in another Member Country.

In total, there are 22 pieces of financial services legislation to be adopted.

Also important is the EC's intention to establish European standards for advanced technology and telecommunications to avoid the past Balkanization of modem technology into separate national markets with varying technical requirements. Such Pan-European standards in the field of technology will enhance the development of economies of scale, reduce redundancies and overheads, and decrease time-consuming delays in applying or utilizing technological advances.

EC Insurance Legislation

A body of EC insurance legislation already exists in the form of EC Directives. These amplify the Treaty of Rome, define the intended results and provide a framework which must be adopted in local law. The form of legislation and method by which the desired result is achieved are left to each Member State. Thus, insurers must conform to each nation's legislation and the principles of the EC Directives.

Past Directives provide for the free movement of reinsurance, set basic rules for establishment of life and non-life insurers to be applied equally to native and foreign companies, and eliminate the requirement that a lead coinsurer be physically present in the insured's country.

No country can restrict, on the basis of the nationality of the enterprise, an EC-based company from establishing a branch or subsidiary. But that establishment of branches and subsidiaries is subject to local rules which vary widely across Europe. This right to establish a subsidiary or branch is called "trading by establishment." Only authorization to do business is required; physical presence need not be required.

In certain circumstances, an insurer is free to provide covers without being established in the member country. This is "trading by service." Authorization is not required. Reinsurance is a good example of "trading by service."

Obstacles remain to the freedom of an insurance company established in one EC country to cover risks situated in other member countries. For instance, the Second Non-Life Directive distinguishes between the rights for large commercial covers ("large risks") and consumer covers ("mass risks"). Accident and sickness covers (except workmen's comp) are defined as "Mass Risks," as are land vehicles, motor liability and legal expense covers.

"Mass Risks" cannot be covered under the right to freedom of services; they require local establishment of a branch or subsidiary. It is thought that Host Country control and supervision of "mass risk" business is especially important to ensuring consumer protection.

Writing "Large Risks" does not require local establishment. They can be written as "trading by service."

The Draft Second Life Directive

The Draft Second Life Directive, published in December 1988 but not yet adopted, provides for minor liberalization.[3] From a legislative point of view, 1992 will have very little direct impact. This Directive provides for two methods to market insurance across borders within the EC: what some have referred to as Passive Marketing and Active Marketing.[4] It also introduces the Principle of Reciprocity. In addition, various notifications to both Head Office and Host states are also required when an insurer wishes to trade on a freedom of services basis.[5]

Passive Marketing of Cross-Border Insurance

Passive Marketing enables an insurer to accept cross-border business only "where the policy-holder takes the initiative" to make "the initial contact" with the company or "where the contract is concluded" in the insurer's Home Country (referred to as the "Establishment State") without prior contact between the policy-holder and carrier having been made in the policy-holder's country of residence (referred to as the "Member State of the Commitment" or Host Country)."[6]

As any former philosopher who left academia to sell insurance can tell you, this aspect of the Second Life Directive does to the sale of insurance what Marx did to Hegel's dialectic: turns it on its head. We say, "Life insurance isn't bought; it's sold." The Passive-Marketing, cross-border aspect of this Directive establishes rules that boil down to "insurance can't be sold, it must be bought." The obvious intention is to discourage this kind of business and encourage companies to physically establish subsidiaries or branches.

Active Marketing of Cross-Border Insurance

Active Marketing allows cross-border solicitation of insurance, but it allows Host States, to require foreign EC insurers to obtain the same Host State authorization and supervision required of local insurers and branches of non-resident insurers. Moreover, on the grounds of consumer protection, Host States can impose additional discriminatory requirements relating to premiums, policy terms, forms and documentation not imposed on domestic insurers. These provisions of the Draft Second Life Directive remove "most, if not all, of any potential benefits arising from not needing to have a local establishment."[7] Once again, local subsidiaries and the attendant local employment they bring are being encouraged.

Different supervisory rules from country to country will persist. Differences in insurance product and premium taxation still abound throughout the EC. Thus:

> Insurers operating in relatively free domestic markets (could) face increasing competition from insurers from other EC states, (without benefiting) from the ability to compete on equal terms with well established domestic insurers in countries with more restrictive regulatory ... frameworks.[8]

Thus, the pressure for equity, for truly equal treatment, is on. All EC countries must cooperate, or all must fight. This takes us back to the three key strategies for achieving Freedom of Establishment and Free Trade in financial services. The importance of harmony of standards cannot be over-stressed; the EC, as it admits, has more work to do if it is to achieve a truly Single European life insurance market.

Reciprocity

The Treaty of Rome provides freedom of establishment for EC Members only. After 1992, non-EC insurers will be obliged to treat each EC country separately, whereas EC insurers will be able, within limits, to trade on a service basis across Europe subject to host country supervision.

Like the Draft Second Banking Directive before it, the proposed Second Life Directive includes the concept of Reciprocity, wherein non-EC insurers may be refused access if their country denies an equivalent right of access. Switzerland, Sweden and Austria have taken this principle very seriously, which explains the recent European Free Trade Association (EFTA) negotiations and national moves to bring their rules into line with those of the EC.

There is division within the EC over the Principle of Reciprocity, what exactly it means and how it is to be applied. U.S. bankers' fears have been somewhat alleviated this month by the EC recommendation of "national treatment" for allowing foreign bank entry into the EC post-1992.

"National treatment means that foreign banks entering a (particular EC nation's) market enjoy the same banking powers as that nation's domestic banks."[9] The principal criterion of reciprocity will be "equivalence in economic effects" rather than legally equivalent conditions of access to market, or what some have called "mirror image" or identical reciprocity. In this case, it appears reciprocity will not be applied retrospectively to U.S. insurers already established in the E.C. However, the EC retained the right to limit new authorizations for, say, a U.S. bank established in the EC which might later seek to enter the insurance business.

Reciprocity is not a dead issue and, therefore, suggests urgency to those who would enter the EC before it takes effect in 1992.

Branches are not treated as legal entities by the EC; therefore, they do not accrue the benefits of free trade in services or the right to establishment. A branch of a U.S. insurer is not subject to the Reciprocity rule, but it "will not be able to take advantage of cross-border marketing."[10] If a U.S. company has not incorporated an EC subsidiary, a Member State can reject a branch application. Only an EC-based subsidiary has full EC rights to freedom of establishment or trade in services.[11]

Most authorities continue to urge establishment of EC insurance subsidiaries (not branches) by non-EC firms prior to 1992.[12] Protectionism is a real possibility within the EC after 1992. U.S. life insurance companies should establish themselves there before that date or be prepared to be locked out of a single market representing about 25% of the world's insurance capacity.[13]

In view of the potential for limits on U.S. insurer expansion into Europe come 1992 and the increased foreign competition in our own domestic insurance market, it's time for us to think "international." Tempis fugit.

What Does 1992 Mean to U.S. Life Insurers?

What does all this movement to eliminate trade barriers within the EC by 1992 mean, especially to U.S. life insurers positioned for or contemplating EC-wide entry?

1. Branches of non-EC firms or subsidiaries do not have freedom of establishment.

2. Thus, U.S. life insurers are best advised to set up EC subsidiaries and branches of them where possible.

3. The Principle of Reciprocity suggests that you're better off establishing that EC subsidiary before 1992. To paraphrase Peter Sellers and former residents of Haight Ashbury, "be there, be now!"

4. For any EC-based insurer, freedom of trade on a service basis will be limited.

The impact of changes in EC life insurance markets will reach beyond the borders of Europe. Even if you are not interested in entering the EC, you cannot escape the consequences that will surely come home to roost in our own domestic markets.

What's Happening to Life insurance Markets within the EC

What's happening to life insurance markets within the EC? What forces are transforming the marketplace?

My time limits discussion to a few of the major developments, trends and strategies. I will focus on:

1. Bank/Insurer Combinations and

2. The EC Impact on U.S. Financial Services Markets.

Then I'll speak briefly and generally about Security Pacific's European insurance activities and aspirations.

Bank/Insurer Combinations

The EC: A Big Market

The 1992 unification of Europe will create a single market with a GNP of $4.2 Trillion. It is forcing European financial institutions to consolidate to achieve the economies of scale necessary to compete in a more global market.[14] From this unifying process may emerge several large institutions that become new international forces which profoundly effect the international presence of American banking and insurance, and increase competitive pressure domestically (i.e., here in the U.S.).

While creating one market of some 320 million people (a population one-third greater than that of the U.S. and more than two-and-one-half times that of Japan), the EC is also pushing reciprocity ... the economic equivalent of "do unto others as they do unto you." The EC prefers regulatory treatment and powers in the U.S. equivalent to those it grants its own and foreign institutions in Europe. The fear is that if it doesn't get it, the EC will establish barriers against others who lack an EC presence by 1992, thereby creating a "fortress Europe."

U.S. restrictions on bank activities have been a central focus in the demand for reciprocity. In the U.S., banks' securities and insurance activities are restricted by a variety of bodies, laws and regulations, including the Federal Reserve Board (FRB), Office of the Comptroller of the Currency (OCC), State Insurance Departments, the Glass-Steagall Act, the Bank Holding Company Act (BHCA), and its Regulation Y.

Banks in Insurance

Generally, European banks do not have these restrictions. Instead, European financial institutions are free to diversify, merge and create strategic alliances or joint ventures. The following are but a few examples of European bank/insurer combinations.

- UK banks, building societies, insurers, insurance brokers, real estate agencies, mortgage companies and finance houses participate in the wide-spread cross- ownership of each other and cross-selling of each other's products. Further deregulation in 1987 expanded building societies' insurance underwriting authority, permitted foreign bank participation in gilt market-making and brought on London's "big-bang."

- One of the most successful agencies in the world is owned by Trustee Savings Bank (TSB), one of the largest consumer banks in the UK. TSB has owned its own insurer for some time. In 1987 it acquired Hill Samuel Financial Services, Ltd. and Hill Samuel Life Assurance Company.[15]

- In December 1988 shareholders approved the merger of Lloyds Bank and Abbey Life in London.[16]

- In December 1988 GAN (Groupe des Assurances Nationales, Paris), the third largest French state-sector insurer, acquired 51% control of CIC (Credit Industriel et Commercial), a high street bank already 35% owned by GAN. GAN and CIC already have a joint venture, the life company SOCAPI.[17]

- In March 1989 The French Economic Ministry approved the strategic alliance of France's biggest insurer, UAP (Union des Assurances de Paris), and its largest state-owned commercial bank, BNP (Banque Nationale de Paris). UAP already controls Banque Worms and as BNP owns its life insurance affiliate Natio Vie.[18]

- Approximately 40% of French life assurance premiums are captured by banks or bank insurance subsidiaries, such as Predica, owned by Credit Agricole, the largest bank in Europe.[19]

- In 1986 the huge Credit Agricole established Predica, whose life premiums went from zero to 17 Billion Francs ($2.9 Billion) in 1988, nearly taking away UAP leadership at 17.8 Billion Francs.[20]

- Germany's largest bank, Deutsche Bank, has just applied for a license from the Insurance Supervisory Office to open a life assurance subsidiary to distribute insurance through its 1200 branch offices and mortgage banks.[21]

- In response to Deutsche Bank's move, Allianz, Europe's largest insurer, negotiated a distribution agreement with Dresdner, West Germany's second largest bank, covering 600 bank branches in 5 states in central Germany. In 1988, 38% of its premium came from outside Germany as opposed to 6% in 1978. Allianz gets 14% of German life premium.[22]

- In 1987 Aachener & Muenchener Beteiligungs AG paid over $1 Billion for 50% of Bank fuer Gemeinwirtschaft, whose branch offices provide Aachen nationwide distribution for its insurance products.[23]

- Britain's GRE (Guardian Royal Exchange) just joined forces with an Italian Bank to buy three insurance companies.[24]

- RAS (Riunione Adriatica di Sicurata), an Italian insurer controlled by Allianz, received approval to set up its own investment bank. In the last two years at least three other insurers have acquired or set up banking interests.[25]

- Alexander & Alexander formed a joint venture with Banco de Bilbao, Spain's second largest bank.[26]

- Even Metropolitan Life (U.S.) has formed a joint venture in Spain with Banco de Santander. La Caixa, Spain's largest mutual savings bank and its second largest depository institution, owns several insurance companies and financial services firms that distribute its products. Like four other Catalan banks, the bulk of its deposits are deemed insurance products. Operating as an insurer since 1908, La Caixa handles almost $10 Billion of insurance business.[27]

Scrambling To Compete

This representative list of bank/insurer combinations (what last Wednesday's Wall Street Journal called "*bancassurance* in France, in Germany *allfinanz*") doesn't scratch the surface of EC insurance merger, acquisition, de novo, and joint venture activity.[28] EC insurers are scrambling to position themselves in other Member markets.

Large companies are diversifying and growing by acquisition in order to protect their national markets, gain EC market-share and compete worldwide. They are harnessing and transferring new technologies. They are accessing new distribution systems (an essential key to success), reducing unit operating costs and spreading fixed overheads. Some are preparing to enter the booming markets of Southern Europe and are eager to capture accounts resulting from the continued reprivatization of pensions and social security systems.

Smaller EC insurers, like Security Pacific, are positioning themselves as well-managed specialized niche players, strong on value-added service and computerized back-office operations.

A long-term view is necessary in this competitive and capital-intensive life insurance business. There are no quick returns on investments. Europe, the home of former major colonial powers, lends itself to that approach.

EC Impact on U.S. Financial Services Markets

Everybody's Doing it, Doing it ... Now

EC 1992 is one example of the powerful acceleration towards global deregulation in financial services. The trend towards deregulation has been facilitated by the internationalization and diversification of many industries and markets, brought on by increasingly rapid technological developments.

We are witnessing not only the creation of a single market in the EC (admittedly slower for life insurance than other industries), but also the EC's further demands for reciprocity among other non-EC nations wanting to do business in Europe.

Foreign Insurers in U.S.

We cannot remain blind to the increasing penetration of the U.S. insurance market by foreign insurers from Australia, Britain, Canada, Germany, Ireland, the Netherlands, etc.

The list of foreign-owned U.S. insurers is endless: Australia's QBE/Sequoia, Australia's National Mutual/Integrity Life, Britain's Prudential UK/Jackson National, Canada's Empire Life/Connecticut National, and the Dutch Aegon/Life Investors and Pacific Fidelity insurers are on it. Some 3 dozen or more foreign insurers are in our market.[29]

Multi-faceted Canadian companies are running U.S.-based insurance, mutual fund and securities operations, from manufacturing to wholesale and retail distribution.

Only last month England's Legal and General purchased the William Penn Life Companies and AMEV bought MetLife Security of New York.[30]

Foreign Banks in U.S.

Moreover, we cannot ignore the permissibility of Bank entry into insurance business in most EC Member Countries and elsewhere in the world.

Non-U.S. firms own diversified financial services subsidiaries, affiliates and joint ventures in many foreign countries, including Australia, Canada, United Kingdom, France, Germany, Italy, Spain and Hong Kong. The capital concentration and market expansion of EC and other foreign diversified financial services firms will heighten the process of financial services integration in the U.S.

The ongoing movement towards deregulation and diversification in Canada, and especially Quebec, is breaking down barriers between banks, insurers, trust companies and securities firms. U.S. and other foreign banks may now own Canadian securities brokers. Security Pacific was the first foreign bank to buy a Canadian securities firm when it purchased Canada's Burns and Fry in 1987, as it was the first in the UK when it bought Hoare Govett.

Foreign banks from Europe and Australia with unlimited insurance and securities powers in their own countries are expanding operations in the U.S. Foreign insurers with banking affiliates are also making U.S. acquisitions.

The Need for U.S. Bank Deregulation

Foreign deregulation and operational expansion into the U.S. are bringing pressure on the U.S. financial services industry for more deregulation here. The protectionist approach of U.S. insurers inhibits a global vision of financial services; and in the long run it strangles America's ability to compete both here in the U.S. and abroad.

International competition by EC financial institutions (and others) is a big concern to American banks and should concern U.S. insurers. International banks are penetrating the domestic middle market of U.S. regional and superregional banks.[31] As European banks grow larger, stronger and more profitable, they will not only squeeze U.S. banks in the European markets but in U.S. markets as well.[32]

As more foreign banks do more business in the U.S., pressure will intensify on regulators for reciprocity to: (1) allow European banks to do in the U.S. what they are permitted to do in Europe; and (2) level the playing field for American banks by permitting them to play by the same rules that govern foreign banks in Europe. The same rules for equal treatment and free trade begin to play globally as those that are being pressured into play in the EC.

Insurer Opportunities with Banks

In a recent interview, Maurice Greenberg noted the opportunities afforded American insurance companies by the entry of European banks into the insurance market. Greenberg agrees that American insurers can profit by having another distribution system and by establishing new relationships with banks.[33]

By embracing the benefits and opportunities for insurers resulting from European bank entry into insurance, Mr. Greenberg reflects the vision of those who favor similar deregulation in American financial markets. In order to compete globally, American financial institutions will be squaring off with diversified European ones. We need to establish a presence in Europe before 1992 and reconsider domestic deregulation.

Unless we get in the fray, "Buy American" or "Buy USA" will no longer be the name of an American law or the slogans of an American trade protectionist movement or labor union. They will be the avowed strategy, the lyrics of a theme-song, for strategic acquisition of American firms by aggressive, global, foreign companies, many of them European. If the Pillsbury Doughboy can now speak with a British accent, so can we.[34]

Security Pacific Insurance Group (UK), Ltd.

In the UK, on to Europe

When I left the E.F. Hutton Insurance Group to join Security Pacific Insurance Group, my initial responsibility was to establish foreign operations. SP not only wanted to diversify its insurance earnings base, but to gain experience in the more highly deregulated insurance and financial markets of Europe - experience that might prove useful if and when regulations loosened here. I believed then, as now, that it was important to have a position in an EC Member Country before 1992.

Our UK subsidiaries, which include life, general insurance and marketing services companies, were authorized to underwrite credit and non-credit insurance first by the FRB and then by the U.K. Department of Trade and Industry (DTI) in late May of 1986, less than three years ago. The companies have been operational for slightly more than two years. We are just closing our books for May; net written premium looks to be about $1.2 Million this month..

Our companies have focused on creditor covers: credit life, accident, sickness, redundancy and combinations thereof. None of my UK staff came from that marketplace, nor did I; our experience was in traditional life insurance and investment-oriented products - retail and wholesale.

We quickly perceived several niches, the major one being mortgage accident, sickness and unemployment - covers that were relatively new in the UK but with which our San Diego-based parent company, a BHC subsidiary, was comfortable. We do not have an extensive retail banking system overseas like Citicorp does. So, we were thrust, gratefully, I might add, into the open market as a manufacturer and, given the absence of a distribution system we could call our own, as an institutional wholesaler.

<u>Niche Markets</u>

We developed a new clientele:

1. When we entered the market, building societies had an 80% marketshare in mortgage lending. Believing their share would begin to slip, we chose to develop relationships with newly forming mortgage corporations and foreign banks. We signed on HMC, National Home Loan, Mortgage Solutions, Sumitomo, and Credit Agricole. We now do business with two-thirds of the mortgage corporation market. In many cases, we introduced the lenders to the insurers, who distribute a considerable amount of third-party mortgage money. We even went so far as to print UK business cards in Japanese.[35]

2. Long a distributor of unamortized mortgages and endowment contracts, life insurers and their sales forces were receptive to our products. We produced a product they could use to meet additional client needs and generate more commissions. Our insurer-clients include Abbey Life, Providence Capitol, Cannon Lincoln (a Lincoln National subsidiary), and National Mutual's NM Home Loans.[36]

3. We courted Lloyds' brokers and remain the only creditor insurer on the approved underwriter's list of such major Lloyds' brokers as Sedgwick and Willis Wrightson.

4. We also work with smaller UK insurance brokers, who have brought us clients from the consumer finance, small commercial loan, leasing and auto finance segments.

5. To keep overheads low and penetrate the EC without obtaining numerous national authorizations, we became specialist inwards reinsurers. Our treaty with a company owned jointly by Allianz and Munich Re is one of a kind in Germany. In Ireland, we brought, from scratch, an Eagle Star subsidiary into the business as our fronting company. Through them we do business with several major Irish financial institutions and commercial/manufacturing firms.

6. Because of recent market and legislative changes, we have come back to building societies. Building society clients, new to our fold, include Regency, West of England and Alliance & Leicester, the fifth largest in the UK.

7. We are producing quotations for Italian and Nordic financial institutions.

8. We are considering the trade credit business, insuring exports and imports under the Second Non-Life Directive. That business is functionally equivalent to many banking activities.

9. We continue to review the Personal Pensions market and unit-linked products, with an eye to possible future activity.

10. Our International Insurance Department is also examining other parts of the world, including the EC, Caribbean, and Far East, for modes of entry other than underwriting.

Our Strategic Vision

Our search for success has led us to emphasize:

- 5-year strategic planning and detailed Operational and Action Plans that analyze our internal strengths and weaknesses.
- Situation analyses regarding such external factors as economy, regulatory, legislative/political, competition, technology and marketplace issues and developments.
- Solicitation of name-brand clients in targeted niche markets.
- Product pricing which reflects considerable value-added services and skills and underdeveloped markets.
- Development of innovative and differentiated products that flexibly meet client institutions' needs.
- Building an extremely lean and responsive back office operation with emphasis on electronic transfer of bordereauxes and collection of premiums, when necessary.
- Creation of a strategy for administration and automation that explicitly recognizes, to quote in the UK vernacular, that "men are masters of machines and machines are extensions of their imagination. When machines rule men, our vision dies."
- High volumes of business that decrease overheads on a variable cost basis by increased utilization of capacity.
- An automated quotation system to respond rapidly to brokers.
- Distribution as the key to success.

Although our core business has long lead-times, we are comfortable with the steady positive results.

Conclusion

Heaven on Earth? Well, Not Exactly

Deregulated European financial institutions are better prepared to compete in the global market. They will profoundly affect the international presence of both American banks and insurers. Furthermore, we can expect them to increase competitive pressures in the U.S. At the same time, after 1992, the EC may adopt protectionist attitudes. American financial institutions must be prepared for these eventualities.

However, I emphasize again, the integration/deregulation process is global in scope. The worldwide process of integration and deregulation in Europe, Australia and Canada will result in changes in the treatment of U.S. financial services companies established here and abroad.

As William Holzer, Managing Director of Scudder, Stevens & Clark succinctly put it two weeks ago when addressing Penn State's William Elliott Conference, "Global competition permits deregulation and drives the deregulation process. National governments are powerless to stop it."[37]

Nonetheless, 1992 won't end all of Europe's divisions and differences. It will not mean the creation of a "United States of Europe." Great difficulties remain in harmonizing tax structures, monetary policies, social security systems, a common currency, a European central bank and politics, always politics.[38]

We need to realize that opportunities do abound, but we needn't act like Pollyanna or pontificate like *Candide*'s Dr. Pangloss that 1992 "is the best of all possible worlds."[39] We must remember that we are looking at a Common Market among 12 different and proud nations with their own national identities and personalities. Indeed, we would do well to recall the European definitions of Heaven and Hell, which highlight European individuality. As it was told to me years ago by a European and repeated since by others, including just recently by one of my British solicitors,...

Heaven to the Europeans is where:

- the Swiss run the trains
- the Italians are the lovers
- the French are the cooks
- the Germans are the engineers
- and, the British are the police.

Hell to the Europeans is where:

- the Swiss are the lovers
- the Italians run the trains
- the French are the engineers
- the Germans are the police
- and, the British are the cooks.

Long-standing cultural differences and national enmities still divide Europeans. Century after century, Europeans have met each other on bloody fields of battle. Long histories generate long memories.

Will 1992 be Heaven on Earth, or in Europe? Well, not exactly. The truth is, it is a less than perfect world, even in Europe, even after 1992. But, then, it is that imperfection which provides opportunities and drives progress.

EC 1992 will provide opportunities for American insurers. But we must enter Europe now, or face the possibility of being locked out of a self-contained market. My advice is “Enter with your eyes open, but don’t be left out.”

<u>Footnotes</u>

[1] *A Common Market for Services*, produced for the Commission of the European Communities by Ernst & Whinney, 1988, p. 2.

[2] *Ibid.*

[3] "Proposed for a Second Council Directive on the coordination of laws, regulations and administrative provisions relating to direct life assurance, laying down provisions to facilitate the effective exercise of freedom to provide servic es and amending Directive 79/267/EEC," known as the Draft Second Life Directive, No. 89/C38/08, submitted by the EC Commission to the EC Council on December 23, 1988, *Official Journal of the European Communities (OJEC)*, February 15, 1989, pp. No. C38/7-No. C38/16.

[4] See "European Community Draft Second Life Directive: Summary," Tillinghast's *Life Insurance Update* March 3, 1989, pp. 1-8. See also, "Half a Loaf: ...Why life assurers will find little to bite on in the Second Life Directive," Patrick Devine, *European Insurance Strategies*, Issue No. 8, April 1989, pp. 9-11.

[5] *OJEC*, *op. cit.*, Article 14, p. No. C38/13.

[6] *Ibid.*, Article 13, pp. No. C38/12-No. C38/13.

[7] *Life Insurance Update*, op. cit., p. 7.

[8] *Ibid.*

[9] "US Bankers Heartened by Changes in European Community Entry Rules," *American Banker* April 17, 1989, p. 1. See also "Discovering a New Europe," Peter C.O. Schliesser, *Best's Review* (Property and Casualty Edition), January 1989, pp. 27-32, 72.

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