

Recent developments in the life insurance industry in the Netherlands Antilles

*Speech by Dr. E. D. Tromp, President of the Bank van de Nederlandse Antillen on the occasion of the official opening of the new office of Alico in Curacao
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Excellencies, ladies and gentlemen, good evening,

It is with pleasure that I have accepted the invitation to be tonight's guest speaker on the occasion of the inauguration of Alico's new building. Ladies and gentlemen, a word of congratulation is in order. The growth that Alico has recorded in the last few years in the insurance market in the Netherlands Antilles forced them to move out of a landmark building into this new building. I commend the Board and Management of Alico for showing confidence in our economy, by investing in the establishment we are about to officially open today.

Before going to the order of the day, allow me to address some recent developments in the life insurance industry in the Netherlands Antilles, that to a great extent is also being influenced by international developments. I would also like to dwell on some recent developments in the non-life insurance sector, particularly those related to the third party motor insurance which, has been the subject of public debates in the past few weeks.

Insurance has become indispensable in our daily lives. Today it is unimaginable to live without the protection against numerous perils that we face: we need property insurance for our homes, insurance for our cars, insurance to cover damages caused by our children to properties of our neighbors, health insurance and last but not least, life insurance to provide us with some financial security or to secure the future of our loved ones in case of death.

As with other industries, technological innovation and globalization have brought their pressures to bear on the insurance business. Insurance companies are being affected by these global shifts and we as supervisory authority are monitoring these changes continuously to assess their impact on the risk profile of the industry. Potential new risks are emerging for the insurance industry associated with the rapid pace of globalization, the aging population, the developments of e-commerce and the convergence of financial activities.

In the life insurance area, the distinction between certain types of products is becoming less and less clear. We are closely monitoring these developments since they are likely to affect the way we regulate and supervise the insurance industry. In order to cope with these changes it may very well be necessary to change the existing - or adopt new legislation in the future.

Ladies and gentlemen, despite our economic situation in recent years the life insurance companies performed well. Regrettably, this has not been the case for the non-life insurance companies. However, one should bear in mind that adverse economic developments are not often felt immediately in the life insurance industry. As per December 1999, the equity position of the local life insurance companies consisting of capital and surplus increased by nearly 73%. This represents more than twice the amount needed to meet the required cushion referred to as the solvency margin. As you can imagine, we as supervisor welcome this situation as it represents added protection to the policyholders.

Ladies and gentlemen, as I mentioned the life insurance industry is undergoing spectacular changes. Aside from the traditional products being offered such as retirement income, savings instruments, security instruments or as supplements to other contracts such as a basic pension plan, whereby the consumer insures him/herself against all risks, new products are being offered whereby the policyholder bears some of the risks.

The desire for high investment yields, for example, may encourage a consumer to choose for a type of product whereby he or she bears the investment risk. It is important however, that the consumers be adequately informed of the risks they are exposed to in such a situation.

Another development in this area, is the trade of insurance through the Internet, which brings modern financial products closer to consumers via his or her computer at home. While internet commerce brings a variety of products-- otherwise not available---closer to the consumers, the one-to-one contact between agent and potential policyholder, a valuable and powerful service provided and source of advice currently by Alico and others, will be lost through policy acquisition via the computer. Consumers may have to take a decision based on incomplete information.

The advent of policy acquisition via the Internet represents additional supervisory challenges for the Bank. In line with international developments, the Bank is currently working on guidelines for the insurance industry on the Internet. We hope to be able to discuss these and other challenges shortly with the industry.

Non-life sector

Ladies and gentlemen, this brings me to the issue of non-life contracts. An issue that has been hotly debated recently. At issue is whether the premium, which is being administered by the Executive Council of the various Island Territories, allows market clearing to take place. To put it differently, whether the premium the insurance companies are allowed to charge is sufficient to cover the risks associated with the policy. If this is not the case, in a market economy such as ours the market will fail to clear at that price. That means that insurance companies will not be able to provide sufficient coverage at that price.

As you all know, insurance companies providing coverage against third party motor liability have tightened their underwriting and acquisition guidelines and procedures. In some cases, the provision of certain coverages has been tied in with the sale of other products whereas in other cases the premium has been increased. The general public views these actions as unfair.

This view is strengthened by the fact that, on the one hand, motorists have a legal obligation to acquire insurance against the legal liability as stipulated in the National Ordinance Liability Motor Vehicles commonly referred to as the 'LAM'. The premium for this type of insurance coverage is stipulated by the different island governments. Insurance companies, on the other hand, are not required to provide these insurance coverages if the price and risk associated with a contract are considered by them to be unfavorable.

For some years now insurance companies providing this coverage have been contending that the current rate structure is insufficient to cover the risks associated with such a contract. Changes in driving habits of the general public and frequent cases of insurance frauds have led to substantial losses in this type of the insurance business.

Opponents of the measures recently introduced by the insurance companies are calling for the introduction of a legal obligation to provide coverage. The introduction of a legal obligation to the insurance companies to provide coverage will not solve the problem as long as the premium, which the insurance companies are allowed to charge is not sufficient to cover the risks, associated with the contract. As long as the price is not sufficient to cover those risks, insurance companies will not provide those services or they will exit that market segment as was the case with catastrophe coverage on the Windward Islands. Ladies and gentlemen, as supervisor our task is to protect the interest of the policyholders. And as such, the solvency of the insurance company is essential. While social considerations may call for a rate below the market premium, we must be cognizant of the fact that if the official premium insurance companies are allowed to levy forces the companies to operate at a loss, the protection called for in the supervisory act will be rendered useless.

The LAM also provides for the introduction of a Motor Insurance Guarantee Fund. This issue has also received much attention recently and questions were raised as to why this Fund is not yet operational. In this respect allow me to explain first to you the objective of this Fund. Once operational, the Motor Insurance Guarantee Fund will indemnify losses in case of the existence of a legal liability as defined in the LAM under the following circumstances:

1. in the event that it cannot be determined which party is at fault;
2. in case the party at fault failed to comply with the requirement to have insurance or;
3. in the event of insolvency of an insurance company.

Please note that the objective of the Motor Insurance Guarantee Fund is not to operate as a regular insurance company but only to provide indemnification under the circumstances as previously mentioned or to cover the specific risks in the LAM.

It is imperative that the much-needed infrastructure be in place, before the Fund becomes operational to avoid uncontrollable financial burden on this Fund. A requirement for the introduction of this Fund is a central registration system to ensure that no vehicle can use our driveways without a proper insurance coverage.

This system will also provide information for insurance companies, car inspection centers and other governmental agencies, to minimize the risks of an insolvent Fund in the near future.

As the supervisory authority we are charged with the responsibility to promote the solvency of the insurance industry in the interest of the policyholders. If a company has a solvency deficit, the Bank can remove its license. Provision of insurance coverage at prices lower than their cost runs counters to this objective.

The best approach to this problem is to re-institute the Working Group, which has been working on this issue to provide authorities with a lasting solution to this problem.

Ladies and gentlemen, we are facing new challenges in the insurance area, new technological developments, changed financial products within an environment and an economy that is experiencing financial difficulties. Difficulties which need time, courage and decisive measures to overcome. In this respect investments like this new building are very much welcome. Allow me to congratulate again the management, shareholders and personnel of Alico for this new investment, which I am sure will not only benefit the company but also our entire community.