9 Summary and conclusions

9.1 My motivation, research goal and research questions

This dissertation describes and analyses the financial reporting practices of Dutch insurers in the period 1880-2005 and the background of and influences on their single-track reporting approach, under which they designated and published their prudential returns as their financial statements.

The main motivation for my research was that I wanted to understand and explain the long history of this approach. What was its meaning over this long period, was it required or applied voluntarily, which factors influenced it, how did insurance supervisors deal with it, and how did holding companies of insurance groups (which were not subject to insurance supervision) report in practice? Nowadays, one can observe a clear and natural tension between reporting to investors (what I call, financial reporting) and to insurance supervisors (what I call, prudential reporting), given the different objectives these users pursue. And financial statements, in contrast with prudential returns, today focus primarily on the information needs of investors. These users, generally, want to see an unbiased representation of the financial position and the financial performance of the company, to assess the stewardship of management and to predict future cash flows. They may accept a certain level of prudence, but it should not be at the cost of faithful and neutral representation of the effects of transactions and events. Insurance supervisors, on the other hand, were established to protect the interests of policyholders and therefore, generally, favour a (much) higher level of prudence in the financial statements.

So the question arose whether this tension has always existed and was perceived as such during the full period reviewed in this dissertation, and, if so, how has it been possible to combine these two, seemingly different, objectives of reporting by the application of a single-track reporting approach? Finally, did insurance supervisors make adjustments to the reported amounts to assess the financial position of insurers (in the form of so-called ‘prudential filters’), even when the prudential requirements were leading?

This resulted in the following research goal:

To describe and analyse the developments in financial and prudential reporting requirements applicable to Dutch insurance companies in the period 1880-2005, including the relationship between these two legislative regimes, and to explain the interaction of these requirements with actual reporting practices during this period.

The decision to focus on the period 1880-2005 was made because the year 1880 was the year in which the Dutch Supreme Court declared several existing Royal Decrees unconstitutional. This started a long period of uncertainty with, effectively, no legal insurance supervisory system in the Netherlands at all.

---

1 Under an approach using prudential filters, the balance sheet in the financial statements is taken as the starting point to assess the financial position, but, purely for this exercise, certain (non-admissible) assets are eliminated and the measurement bases of assets and/or liabilities are adjusted to take into account the norms of the prudential supervisor.
The year 2005 was selected because it was the first year over which companies (including insurers), if listed in the EU, had to report under IAS/IFRS, which eliminated a number of differences in the financial reporting practices of the three groups selected for review, i.e. AEGON, Fortis and ING.

While, as is explained later, Dutch insurers were only influenced by the Dutch and UK governments in 1880, the figure below shows that this had changed significantly by 2005: the players influencing the financial and prudential reporting environment of Dutch insurers had increased not just in number, but also in origin.

Figure 9.1 Overview of the main players influencing the Dutch financial and prudential reporting requirements in 2005

To describe and analyse the Dutch financial and prudential reporting developments, it is necessary to consider them in an international context. As is explained later, in my view the US, the UK, the EEC/EU and the IASC/IASB formed the most important components of this international context.

To structure my work, I converted my research goal into the following five research questions:

---

2 The ‘European Union’ (the ‘EU’) was established as the ‘European Economic Community’ (the ‘EEC’) in 1957 to create a common market by removing the barriers for the free movements of persons, services, and capital.

3 These were the ‘International Accounting Standards’ (the ‘IAS’) and the ‘International Financial Reporting Standards’ (the ‘IFRS’), issued by the ‘International Accounting Standards Board’ (the ‘IASB’), which had, in 2001, succeeded the ‘International Accounting Standards Committee’ (the ‘IASC’), created in 1973.

---
1. What were the important company developments and events in respect of the legal structure, the organisational structure, ownership, and the (multi)national corporate strategy within the selected companies?

2. What were the developments in respect of financial reporting requirements applicable to Dutch insurance companies against the background of developments in society and in the industry, and how have these developments been influenced by developments in the UK, the US, the EU and its predecessors, and from international organisations?

3. What were the developments in respect of prudential reporting requirements applicable to Dutch insurance companies, and how have these developments been influenced by developments in the UK, the US, the EU and its predecessors, and from international organisations?

4. What were the relationships between financial and prudential reporting requirements in the Netherlands and the other selected countries or regions, and how did the Dutch developments differ from those in these other countries or regions? And, more specifically, which positions were adopted in respect of a single-track reporting approach?

5. What were the actual reporting developments within and reporting choices made by the selected companies, both at the level of individual companies and at group level (if applicable), and how can these be explained from the above developments and events? How did companies, in practice, address the potential conflict between financial and prudential reporting objectives within their application of a single-track reporting approach?

The answers to these questions are presented in this dissertation and summarised in this chapter. In the individual sections, the UK and US developments are described only when they are relevant to understand the Dutch developments and the central themes in the individual periods. However, before presenting these developments and themes, it is first necessary to explain my approach and the external environment in which Dutch insurers operated, and, to answer research question nr. 1, to present an overview of the most important company developments and events.

9.2 My approach and the external environment of the Dutch insurance industry

When carrying out my initial research, it soon became clear that I was in uncharted territory. There was no available literature on similar historical studies covering the full or major parts of the period reviewed in this dissertation in a comprehensive manner. Therefore, as is described in chapter 2, I had to develop my own approach. I did this by reviewing historical research on financial reporting developments, such as accounting classification studies, accounting history research methodologies, publications on other industries, and publications on accounting policy choices and changes therein.

These studies and publications taught me that it was necessary to put the reporting developments in the context of the evolutions in the Dutch economy, the demographic situation, the social security system, the company tax system, and the insurance industry in general. This was because these factors had (or, at least, could have had) an impact on the competitive environment and business opportunities for Dutch insurers. Furthermore, also specific company developments (such as changes in the legal or organisational structure, in ownership, or in corporate strategy) had to be reviewed, since these, generally, impact the choice of accounting policies, presentation and disclosures.
Additionally, it was necessary to use a consistent terminology throughout the whole period, and to make specific decisions on the scope of the research.

Regarding the scope, I decided to focus on those elements in the financial statements that created some specific reporting issues for insurers and made them differ from other companies. They were: the size of the financial reports, the formats of the primary financial statements (the balance sheet, the profit and loss account, and, if applicable, other primary statements), the selection of accounting policies and the mandatory and voluntary changes therein, investments, technical provisions, long-term employee benefits, taxes, segment information, business combinations, and the disclosure of solvency information. The background and meaning of these items are presented in chapter 2.

My initial research also revealed that there were, as a result of developments in legislation and actual reporting practices, clear indications that the meaning of the term ‘single-track reporting approach’ had, indeed, changed over time. I identified three variables that seemed to play an important role for individual insurance companies, and two for the holdings of insurance groups. They are combined in table 9.1 and presented next:

- For individual insurers:
  - Whether the prudential or the financial reporting requirements were in the lead in respect of the accounting principles;
  - Whether additional information was required to complement the leading reporting regime; and
  - Whether the insurer had to apply and disclose prudential filters to determine its solvency position; and

- For holding companies:
  - Whether or not they applied similar models for the balance sheet and the profit and loss account as their insurance subsidiaries; and
  - Whether or not they adopted similar accounting policies as their insurance subsidiaries.

<table>
<thead>
<tr>
<th>Individual insurance company</th>
<th>Type</th>
<th>Leading reporting regime in respect of the accounting principles</th>
<th>Additional information required to complement the leading reporting regime</th>
<th>Prudential filters required to determine the solvency position and disclosed in the statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Prudential</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>2</td>
<td>Prudential</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>3</td>
<td>Prudential</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>4</td>
<td>Prudential</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>Financial</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>6</td>
<td>Financial</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>7</td>
<td>Financial</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>8</td>
<td>Financial</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Holdings of insurance companies</th>
<th>Type</th>
<th>Similar models for the balance sheet and profit and loss account as their insurance subsidiaries</th>
<th>Similar accounting principles as their insurance subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>10</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>11</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>12</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Since it is possible that there were periods in which both the prudential and the financial reporting regimes played an important role, I have sometimes applied professional judgement to determine the type of single-track reporting approach that was in place. Where this is the case, this judgement call is clearly identified and explained.

Regarding the context in which Dutch insurers operated, part of research question nr. 2, the following table presents a number of key statistics, to the extent they were available.\(^4\)

All amounts are in NLG, except those in the column 2005*, which are in euros.\(^5\) The amounts for the insurers refer to all activities of the Dutch insurers, including those carried out by branch offices outside the Netherlands, if applicable.

<table>
<thead>
<tr>
<th>Table 9.2</th>
<th>Statistics on the Dutch population, economy and insurers in the period 1880-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Population and economy</strong></td>
<td></td>
</tr>
<tr>
<td>GNP in market prices (in billions)</td>
<td>1.1</td>
</tr>
<tr>
<td>GNP per capita</td>
<td>278</td>
</tr>
<tr>
<td>Index figure (1980 = 100)</td>
<td>1</td>
</tr>
<tr>
<td>Long-term interest rate</td>
<td>3.8</td>
</tr>
<tr>
<td>Short-term interest rate</td>
<td>3.8</td>
</tr>
</tbody>
</table>

| Domestic life insurers including funeral funds, tontine companies and, from 2000 onwards, funeral-in-kind insurers | |
|---------------------------------------------------------------|
| Total number | - | 171 | 147 | 149 | 89 | 80 | 72 | 145 | 115 | 115 |
| Total assets (in billions) | - | - | 0.4 | 1.6 | 9.5 | 22.9 | 70.5 | 540.5 | 665.6 | 302.0 |
| Index figure (1980 = 100) | - | - | 0 | 2 | 13 | 32 | 100 | 766 | 944 | - |
| Total equity (in billions) | - | - | 0.0 | 0.1 | 0.6 | 4.8 | 11.6 | 61.1 | 67.4 | 30.6 |
| Index figure (1980 = 100) | - | - | 0 | 1 | 5 | 41 | 100 | 526 | 581 | - |
| Total premiums (in millions) | - | - | 77 | 149 | 998 | 2,400 | 6,873 | 50,691 | 53,244 | 24,161 |
| Index figure (1980 = 100) | - | - | 3 | 6 | 15 | 35 | 100 | 737 | 775 | - |
| Total profit (in millions) | - | - | 19 | 90 | 264 | 1,223 | 1,525 | 7,321 | 3,322 | - |
| Index figure (1980 = 100) | - | - | 2 | 7 | 22 | 100 | 125 | 599 | - | - |

| Domestic non-life insurers | |
|-----------------------------|
| Total number | - | - | - | - | - | 315 | 227 | 250 | 210 | 210 |
| Total assets (in billions) | - | - | - | - | - | 3.6 | 14.0 | 73.6 | 102.1 | 46.3 |
| Index figure (1980 = 100) | - | - | - | - | - | 26 | 100 | 526 | 729 | - |
| Total equity (in billions) | - | - | - | - | - | 1.2 | 3.5 | 20.8 | 31.1 | 14.1 |
| Index figure (1980 = 100) | - | - | - | - | - | 34 | 100 | 594 | 889 | - |
| Total premiums (in millions) | - | - | - | - | - | 3,185 | 11,445 | 31,551 | 56,152 | 25,481 |
| Index figure (1980 = 100) | - | - | - | - | - | 28 | 100 | 726 | 491 | - |
| Total profit (in millions) | - | - | - | - | - | 100 | 850 | 1,566 | 5,531 | 2,510 |
| Index figure (1980 = 100) | - | - | - | - | - | 12 | 100 | 184 | 651 | - |

The table shows a gradual increase in the population, but in particular in the nominal level of wealth, as indicated by GNP per capita. As is demonstrated by the index figures, the financial statistics of the Dutch insurance industry followed this trend, with a large increase in all amounts after 1980 when the growth of the insurers started to exceed the increase in GNP per capita.

Regarding the Dutch social security system, the first legal steps occurred in the beginning of the 20th century with the adoption of a number of acts focusing on employees. From the end of the 1940s onwards, this system was expanded by several general acts, also covering non-employees.

---

\(^4\) The table is derived from the data in annex 8.

\(^5\) Since the purpose of the table is to compare the developments in the national economy with those of the Dutch insurers, all amounts are nominal and have not been adjusted to eliminate the impact of inflation.
However, in the 1980s it started to become clear to the Dutch government that the existing social security system was unsustainable in the future because it was too expensive. Subsequently, a process started to gradually slim the system to decrease its volume and the related expenses, partly by a program of privatisation of the risks. Most of these activities were completed by 2005.

The tax obligations of Dutch companies, including insurers, were initially limited to charges in respect of distributions to shareholders but, from 1918 onwards, tax was also levied on bonuses to the board members and the staff of a company. This system was replaced in 1940 with the introduction of tax charges based on the profits of companies. It applied to insurance companies as well, although they were allowed, within certain limits, to create tax-exempt reserves, which should be used to absorb losses before any other form of tax compensation was available. This system stayed in place for the rest of the period covered in this dissertation, although the limits to these reserves were decreased several times. Generally, these changes were accompanied by more strict regulations on the fiscal calculation of the life insurance provision and the capitalisation and amortisation of the related acquisition costs and interest rate rebates.

Overall, the Dutch insurance industry profited from the growth in the economy and the subsequent changes in the social security system, creating business opportunities to sell complementary or substituting insurance coverage. To seize these opportunities, a number of mergers occurred creating multi-line insurers and increasing the level of concentration on the Dutch market.

As is shown later in this chapter, the changes in the tax system did not directly impact the activities of the insurers, but they did influence the accounting policies in their financial statements.

9.3 The important company developments and events (research question nr. 1)

As is noted earlier in this chapter, I selected AEGON, Fortis and ING (including their predecessors and important Dutch insurance subsidiaries) as the companies of which I reviewed the financial statements to answer my research questions. There are several reasons for this. They all existed during the full period covered in this dissertation and were important players on the Dutch insurance market. Furthermore, they were listed at the Amsterdam Stock Exchange, operated on an international basis, contributed often actively to the Dutch financial and prudential reporting developments, and, last but not least, had extensive company archives that were opened for my research.

The decision to focus on these companies means that my findings cannot always be compared to observations on the industry as a whole. It also avoids a too large emphasis on some important bankruptcies in the Dutch insurance industry, which triggered certain legislative initiatives, but were, in my view, not representative of the overall developments in and affecting the industry. In contrast, my selection of ‘survivors’ makes it possible to look at the longer-term development in the reporting practices of large and important Dutch insurers over the full period discussed in this dissertation, and to describe and analyse these practices based on a consistent sample.

The important company developments and events, i.e. the answers to research question nr. 1, are presented in chapter 3. It shows that all three groups resulted from a number of mergers. Their roots go back to the middle of the 19th century, and, in most cases, their development started with the establishment of funeral funds or life insurance companies.
Gradually, these activities were combined with non-life insurance activities to form multi-line insurance groups. This led to important mergers in the 1960s, when the Nationale-Nederlanden, the AGO and the Ennia were created, followed by a new wave in the 1980s and the early 1990s, when AEGON, Fortis and ING emerged. In case of the latter two companies, the insurance activities were complemented by banking activities, resulting in the establishment of large financial conglomerates. And regarding Fortis, another important development was the merger of the Dutch AMEV with the largest Belgian insurer AG, creating the first binational group in the Benelux financial services industry.

During the period described in this dissertation, all groups transformed themselves from large Dutch insurers to companies working on a truly international basis. This process was started by the Nationale-Nederlanden in the 1950s, followed by the AMEV near the end of the 1960s and by the AGO and the Ennia in the 1970s. Although the international expansion covered a large number of countries, all three groups had a specific focus on the US and obtained significant market shares. To support and finance these expansion activities, all three groups listed at the Amsterdam Stock Exchange in the early 1960s, and AEGON and ING also obtained, in the 1990s, listings at the New York Stock Exchange. The expansion activities triggered several changes in the legal and organisational structures during the period.

### 9.4 General overview of the financial and prudential reporting developments (research questions nr. 2 and nr. 3)

Figure 9.2  Overview of the main financial and prudential reporting developments in the period 1880-2005

![Diagram showing the chronological development of financial and prudential reporting requirements from 1830 to 2005.](image-url)
The developments in respect of financial and prudential reporting requirements are presented and discussed in chapters 4 to 8. The main ones are summarised in figure 9.2, shown above.

It shows that the Dutch financial reporting requirements (research question nr. 2) were, initially, limited to those included in the 1835 commercial code. Subsequently, they were, after several proposals and bills partially influenced by the relevant UK legislation, amended by a new commercial code adopted in the years 1928-1929. But the real change only occurred in 1970 with the introduction of the companies’ annual accounts act. This resulted from a number of private initiatives and proposals in the mid-1950s to the mid-1960s, which were, again, influenced by the UK legislative developments. The adoption of the 1970 act resulted in the establishment of the TO, which coincided with the creation of the IASC. It was, in particular, the last event, combined with the adoption of a number of European accounting directives that were subsequently implemented in the Dutch legislation, which influenced the financial reporting developments and gradually created a comprehensive Dutch financial reporting regime. The developments in the US did not have a direct impact on the Dutch requirements, although, as is described later in this summary, they influenced the discussions in the IASC/IASB and the actual reporting practices of the companies reviewed in this dissertation.

The developments in the Dutch prudential reporting requirements (research question nr. 3) had, in contrast, a much earlier impact on the insurance industry. It was in particular after a ruling of the Dutch Supreme Court in 1880, which declared a number of Royal Decrees (including a limited form of supervision of life insurance companies) unconstitutional, that a large number of proposals and bills were developed. As was the case for the financial reporting developments, most were directly influenced by the requirements in the UK. After the demise of the largest Dutch life insurer (the ‘Algemeene’) in the beginning of the 1920s, the proposals resulted in the first Dutch life insurance supervisory act. It was followed, in 1964, by the first Dutch non-life insurance supervisory act. Since both acts included strict and extensive reporting requirements, Dutch insurance companies were already subject to a comprehensive reporting regime before (and, for life insurers, long before) this was the case for other companies in the Netherlands. Subsequently, the prudential reporting requirements were, as was the case for the financial reporting requirements, amended as a result of the Dutch implementation of a number of European directives. Although they were discussed on several occasions, the developments in the US hardly played a role, since they moved in a different direction than those in the Netherlands and on the European level.

A large number of the above developments impacted each other in respect of the actual reporting requirements and practices of the Dutch insurers and the holding companies of insurance groups, whether for financial or for prudential purposes. However, this impact was not consistent for the whole period and showed variations over time. The result was that also the substance of a single-track reporting approach was not stable during the whole period reviewed in this dissertation, neither in the way it was, implicitly or explicitly, included in applicable regulations, nor in terms of its implications for the financial reporting practices.

---

6 This was the ‘Tripartite Overleg’ (the ‘Tripartite Study Group’ or ‘TO’), established in 1970. In 1981, it was succeeded by the ‘Raad voor de Jaarverslaggeving’ (the ‘Council for Annual Reporting’ or ‘RJ’).
This shifting significance of the notion of a single-track reporting approach is the central theme of this dissertation, which, together with its practical application (research question nr. 5), is described in the remainder of this summary to provide an answer on research question nr. 4. Where relevant, these descriptions will also explain the developments presented in figure 9.2 in more detail.

## 9.5 The single-track reporting approach (research question nr. 4) and its practical application (research question nr. 5)

### 9.5.1 Introduction

As is described at the beginning of this chapter, a single-track reporting approach means that the prudential returns of supervised insurers were designated and published as their annual accounts. This section describes how this approach was influenced by the legislative changes and developed in practice, divided into five periods in which the reporting regimes or practices fundamentally altered.

But before starting these descriptions, it is useful to present the developments in the financial reports of the companies reviewed in this dissertation. This already gives an impression of the impact of the developments in legislative requirements as well as in the companies themselves. The numbers focus on the financial reports as a whole, since a clear distinction between the management report and the annual accounts was not (clearly) made consistently over the full period.

### Table 9.3 Number of pages of the financial reports in the period 1880-2005

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Algemeene Friesche (L)</td>
<td>-</td>
<td>8</td>
<td>35</td>
<td>129</td>
<td>108</td>
<td>172</td>
<td>147</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Algemeene Friesche Brand/Schade (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>22</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Groot-Noordhollandsche (L)</td>
<td>-</td>
<td>7</td>
<td>25</td>
<td>63</td>
<td>67</td>
<td>123</td>
<td>127</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Olveh (L)</td>
<td>-</td>
<td>31</td>
<td>55</td>
<td>84</td>
<td>64</td>
<td>111</td>
<td>108</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AGO Leven (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>192</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AGO Schade (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>24</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AGO (H)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>48</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Eerste Nederlandse (L)</td>
<td>38</td>
<td>55</td>
<td>107</td>
<td>151</td>
<td>372</td>
<td>152</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nieuwe Eerste Nederlandse (N-L)</td>
<td>-</td>
<td>22</td>
<td>24</td>
<td>17</td>
<td>13</td>
<td>47</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nijmij 1859/Nijmij Leven (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>145</td>
<td>135</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ennia Leven (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>162</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ennia Schade (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>41</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ennia (H)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>39</td>
<td>68</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AEGON Leven (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>157</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AEGON Schade (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>39</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AEGON (H)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>88</td>
<td>111</td>
<td>208</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Utrecht (L)</td>
<td>-</td>
<td>16</td>
<td>23</td>
<td>87</td>
<td>94</td>
<td>251</td>
<td>178</td>
<td>145</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Holland van 1859 (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Holland (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>48</td>
<td>44</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AMEV Leven (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>127</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AMEV Schade (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>56</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AMEV (H)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>30</td>
<td>40</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fortis (H)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>102</td>
<td>220</td>
<td>320</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nederlanden van 1845 (N-L)</td>
<td>-</td>
<td>-</td>
<td>103</td>
<td>79</td>
<td>25</td>
<td>32</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nederlanden Leven (L)</td>
<td>-</td>
<td>-</td>
<td>38</td>
<td>88</td>
<td>175</td>
<td>331</td>
<td>160</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nationale (L)</td>
<td>12</td>
<td>34</td>
<td>45</td>
<td>99</td>
<td>126</td>
<td>255</td>
<td>198</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nationale-Nederlanden Leven (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>270</td>
<td>272</td>
<td>214</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nationale-Nederlanden Schade (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>71</td>
<td>56</td>
<td>60</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nationale-Nederlanden (H)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>42</td>
<td>81</td>
<td>91</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ING (H)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>86</td>
<td>187</td>
<td>199</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: life insurance companies are marked ‘L’, non-life insurance companies ‘N-L’, and holding companies ‘H’.

665
The table shows a gradual increase in the size of the financial reports, for life insurance companies in particular from 1925 onwards as a result of the mandatory use of the models for their prudential returns under the 1922 life insurance business act, and for non-life insurance companies after the adoption of the 1964 non-life insurance business act. Because of the mergers occurring in the 1960s and the resulting disappearance of a number of insurers, it is difficult to assess the impact of the 1970 companies’ annual accounts act, although the increase in the size of the financial report of the AMEV indicates that it was present. The increases after 1980 were a combination of company developments (in particular, the growing internationalisation and diversification) and the implementation of the European accounting directives, with a spectacular increase for AEGON and Fortis in 2005 as a result of the mandatory adoption of IAS/IFRS.

Even though I have not been able to retrieve systematic historical statistics on the size of the financial reports of Dutch non-insurers, the figures in table 9.3 show, in my view, that the size of the reports of Dutch insurers was quite large, before, but certainly after the introduction of mandatory models for the prudential returns under the insurance supervisory acts. As is explained in the next sections, these returns were, in practice, designated and published as the financial statements (a single-track reporting approach). In this respect, the insurers were, at least before the implementation of the 1970 companies’ annual accounts act, far ahead of the contemporary Dutch reporting practices in respect of disclosures. Whether or not this was also the case concerning the accounting principles and the resulting insight in the financial position and the financial performance is discussed hereafter.

9.5.2 The period 1880-1922 – the supervisory vacuum
As chapter 4 describes, the period 1880-1922 was the supervisory vacuum during which there were no prudential reporting requirements in the Netherlands. As a result, the Dutch application of a single-track reporting approach was, effectively, a non-issue. This section describes the financial and prudential reporting developments in the period and their impact on the actual reporting practices of the companies reviewed in this dissertation.

9.5.2.1 The legislative developments
The only applicable financial reporting requirements were included in the 1835 commercial code, which focused on providing financial information to the shareholders of joint stock companies (including insurers), not to the public at large. Although the code did require the annual preparation of a balance sheet, it included no specifics concerning the contents of such a statement, the accounting principles to be applied, or the publication of such a document.

Between 1871 and 1912, several attempts were made to amend this code, making reference to, among others, the developments the UK. In this country, financial reporting requirements were already introduced in the first half of the 19th century by the adoption of legislation requiring, among others, the publication of a “full and fair” balance sheet, although there was no specific guidance to explain what this concept effectively meant. Before 1907, the focus was on providing information to shareholders only, but subsequently all ‘public’ companies (i.e. those companies that were allowed to make any public offering of their securities) were required to publish their annual balance sheet by filing it with the ‘Board of Trade’, thus making this document available to the public at large.
The UK legislation included certain exemptions for insurance companies if they reported under the insurance supervisory act (described hereafter), i.e. applied a type 1 single-track reporting approach.

The proposed amendments to the Dutch commercial code, focusing on the protection of investors as well as creditors, all failed to obtain sufficient parliamentary support, in particular because views differed on the publication requirements for ‘private’ companies (i.e. companies that did not make any public offering of their securities): Parliament wanted an exemption for this group, and the government did not.

Similar developments occurred in respect of the prudential reporting requirements for Dutch insurers before 1922. After an 1880 decision of the Supreme Court that the Royal Decrees issued between 1830 and 1845 (which regulated a limited level of supervision of life insurance companies) were unconstitutional, a number of initiatives were employed between 1885 and 1920 to reinstitute some form of life insurance supervision. During the discussions, reference was made to the US approach, based on state legislation that created state insurance supervisors and the requirement to submit prudential returns to them (but not to the public at large). This system introduced a required solvency margin (i.e. the amount of equity of an insurer required to be and stay in business), prescribed accounting policies and strict limitations on the business practices of insurers. These prudential requirements initially showed variances per state, but, as a result of initiatives of the ‘NAIC’, were subsequently more harmonised by the adoption of model laws. This development made the prudential returns very different from the financial statements of other companies, for which, at the time, hardly any financial reporting requirements existed.

The Dutch proposals and bills rejected the US approach as being overprescriptive, and, instead, looked at the UK approach where insurance supervision already started at the end of the 18th century but accelerated in the second half of the 19th century. Under the 1870 life assurance companies act, life insurers were required to prepare annual balance sheets and revenue accounts in accordance with mandatory models, and to disclose the basis for the calculation of the technical provisions. These accounts had to be made publicly available by filing them with the Board of Trade, which, however, did not actively exercise any form of supervision. This approach was based on the principle of ‘freedom with publicity’: the government would not interfere in the business activities of the insurers (‘freedom’) in exchange for extensive publication requirements (‘publicity’). However, accounting policies were not prescribed, and the calculation of the life insurance provision was not required annually, which was a clear difference with the requirements in the ‘general’ companies acts. The structure of the 1870 act was maintained in the 1909 act which expanded insurance supervision to almost all insurance companies, without introducing fundamental other changes. In this 1909 act, the possibility to apply a type 1 single-track reporting approach, included in the ‘general’ companies acts, was preserved.

After a large number of years of discussions, the UK ‘freedom with publicity’ approach with mandatory reporting models was endorsed as the basis for the 1922 Dutch legislation, although it was complemented with the introduction of the ‘Insurance Chamber’ as the supervisory authority.

7 Under these Decrees, life insurers only had to obtain advance (Royal) authorisation to carry on their business and make, every five years, a balance sheet available to their policyholders.
8 This was the ‘National Association of Insurance Commissioners’, established in 1871 to coordinate US insurance supervision between the individual states.
The life insurance business act introduced, effective from 1925, mandatory models for the prudential returns to be submitted to the Insurance Chamber and, as is described hereafter, the mandatory application of a type 1 single-track reporting approach. The idea of introducing a kind of required solvency margin was discussed several times during its development, but, ultimately, not implemented.

9.5.2.2 The application in practice

Before the adoption of the 1922 act, there was quite some variety in the structure of the financial statements of the companies reviewed in this dissertation. Firstly, not all prepared full financial statements on an annual basis, and if they did, these did not always include a profit and loss account. Comparative figures were not provided, and cash flow statements were only published by two companies in a period that they did not present profit and loss accounts. Secondly, all companies used their own formats to prepare their balance sheets and profit and loss accounts. The formats proposed during the development of a life insurance supervisory act were, with one small exception, not applied. However, the developments in the formats of the balance sheets and the profit and loss accounts of several companies over time did reveal that the proposals had some impact in respect of the level of details that were included, in particular regarding the investments, premiums, claims and expenses. Furthermore, the formats of the profit and loss accounts of a few companies showed similarities with the formats of the UK prudential requirements. Overall, the formats of the balance sheet were reasonably comparable between the companies and over time, although the level of detail differed. On the other hand, the formats of the profit and loss account were less comparable and consistent, and confirmed the diversity observed in the literature.

The companies also showed different treatments in respect of the profit appropriation: although it was, in one way or another, included in the profit and loss accounts of a large number of companies, some did not provide this information separately, but allocated the components of the profit appropriation undisclosed to the relevant lines of their profit and loss accounts. As a result, not all companies disclosed their annual profits. If a profit appropriation was provided, it showed the amounts allocated to policyholders and allotted to staff and officers of the company in the form of bonuses: these were not considered to be part of the determination of profits. However, even when a profit appropriation was presented, this did not occur on an annual basis, since most companies applied, for a considerable part of the period, a multi-year system of three or five years. Although the share of the policyholders was, economically, built up during such a period, it was not always clear in what way these future liabilities were accounted for in interim years, and different systems were applied.

There was one life insurer that provided, in its annual accounts, supplementary information prepared in accordance with, initially, the UK 1870 act, followed by the 1885 proposals of a Dutch government advisory committee, and subsequently those included in a 1912 Dutch government bill. And another life insurer published, from 1921 onwards, a number of additional schedules supporting the profit and loss account, which provided supplementary information concerning the surcharge account (dealing with expenses), the interest account, the revenue account (including data on mortality and lapses), and a general account.
The selected companies disclosed their accounting policies only to a limited extent, and the lack of (consistently prepared) movement schedules of the reserves in the annual accounts of most companies did not help to properly assess these policies and any changes therein. Furthermore, in case such schedules were provided, the terminology used and the formats of the profit and loss account provided, in most cases, no clear indication of the nature of the reserves. In particular, they did not disclose whether or not these reserves had, effectively, more the nature of necessary or desirable adjustments of assets and/or liabilities.

Regarding the accounting policies for investments, the comments in the literature revealed that practice showed a wide variety, with strong support for as well as fierce opposition against certain principles, such as measuring investments at cost or at stock exchange values. In my view, this shows that there was, already in the 1900s, a level of awareness of the importance of accounting policy choices and their impact on the financial statements of the reporting period and of the future.

Until the early 1920s, most companies reviewed in this dissertation applied the same system for the measurement of their securities, which was, with some variations and limitations for debt securities, the stock market value. For the other investment categories, the accounting policies were only disclosed by a few companies, but it was clear from the notes to the balance sheet that land and buildings, usually, included undisclosed reserves.

There was, however, much less clarity or uniformity in respect of the accounting for unrealised and realised gains and losses on investments. The practices of only two companies could be determined with certainty: one reported all amounts in the profit and loss account, and the second changed its policy from including all such gains and losses in the profit and loss account to debiting and crediting the amounts to the reserves. The accounting policies for the other companies were unclear, since they reported, in the same year, amounts in the profit and loss account as well as in the reserves (without a clear link between them), or did not provide information on the movements in the reserves at all.

Next to the debate in respect of the accounting principles for the investments, the literature also showed strong discussions concerning the methods to determine the life insurance provision. As is explained in chapter 2, this choice had a large impact on the financial position and the financial performance of life insurers, with the net premium method as the most prudent one, and the Zillmer method (or a variety thereof) as one that, arguably, presented the most realistic position.

Although the financial statements of the companies reviewed in this dissertation did not always disclose the accounting policies in respect of the life insurance provision, the data that were presented, combined with other available information, revealed that, between 1880 and 1922, the majority of the companies applied the net premium method, but that the discount rate, although consistently between 3% and 4%, varied between companies and over time. Regarding the non-life insurance provisions, no definitive views can be provided, since there was an overall lack of transparency of the methods used to determine these liabilities.

Regarding the other selected topics for this dissertation, it should first be noted that the disclosure of solvency information was not applicable, since there was no Dutch insurance supervisory system at all.
On long-term employee benefits, it was clear that such schemes existed although their contents were not disclosed; there were also clear indications that the related liabilities were included in the life insurance provision, although this was not explicitly mentioned. Concerning the provision for (deferred) tax, no firm conclusions are possible, since before 1925 this item was not always presented separately, in particular when the profit appropriation was not disclosed. Segment information was only provided by a limited number of companies, although it was clear from other sources that different classes of business were carried on. And, finally, regarding business combinations the limited amount of information available showed that these concerned, in particular, portfolio transfers, which were, generally, reported as accepted insurance liabilities against the payment of a single premium. The accounting treatment of acquired companies was, with one exception, not disclosed: the AMEV reported that it wrote off the full acquisition price of any acquired subsidiaries.

9.5.2.3 Conclusions
Overall, I conclude for the period 1880-1923 that the lack of legislative requirements did not stop the Dutch insurers in presenting useful financial statements, which increased gradually in size and disclosed more and more details. This development was caused by the attempts, over more than 40 years, to establish some form of supervision of life insurance companies. Most companies incorporated some elements of the proposals issued by advisory committees, the government, or the industry itself, and one company even included information based on UK legislation as supplementary information. Furthermore, the balance sheets were reasonably comparable, and the accounting policies in respect of the investments and the technical provisions were harmonised, as far as the balance sheet was concerned. The treatment of unrealised and realised gains and losses on investments was, however, far from transparent, and, therefore, not comparable. For these reasons, I do not fully share the comments in the contemporary literature that there was a wide diversity in financial reporting practices: for the companies reviewed in this dissertation, the annual accounts produced comparable information in respect of the financial position of life insurers. However, I also conclude that comparability in respect of financial performance of the companies through their profit and loss accounts and the accounting policies to determine their annual results was largely absent.

Overall, it is, in my view, absolutely clear that the financial reporting practices by Dutch insurance companies in the period 1880-1923 were dominated by the discussions on the creation of prudential reporting requirements: financial reporting requirements and a focus on the information needs of investors were virtually non-existing. However, as there were no prudential reporting requirements either, potential conflicts between the different objectives of reporting were not even considered. For all involved in the developments, it seemed completely self-evident that any future financial reporting requirements would be determined by the prudential reporting requirements: a single-track reporting approach.

9.5.3 The period 1923-1970 – the introduction of a mandatory single-track reporting approach
In the period 1923-1970, a mandatory single-track reporting approach was introduced, as a result of the coexistence of prudential reporting requirements for insurers and financial reporting requirements applicable to all companies. These developments and their interaction are described in chapter 5 and summarised next.
9.5.3.1 The legislative developments

The most important Dutch legislative developments concerned the introduction, in 1922, of a life insurance supervisory act, and, in 1964, by one focusing on non-life insurers. Both were based on the UK ‘freedom with publicity’ approach, and introduced extensive mandatory reporting models. However, neither of the acts brought a comprehensive set of recommended or required accounting policies to be applied in the prudential returns, leaving insurers still completely free to make their own choices. This approach was aligned with that in the UK, but in sharp contrast with that in the US, where the NAIC continued to develop the accounting policies to be adopted in the prudential returns and, to determine the solvency position of insurers, required the elimination of certain assets from the balance sheet and the adjustment of certain liabilities. The lack of prescribed accounting principles was not resolved by the Insurance Chamber, which was, generally, silent in the public domain although it provided some guidance in its annual reports, for instance that life insurers were allowed to include the obligations from staff pension schemes in their life insurance provision. Whether or not the chamber used prudential filters is unknown: I have not been able to find any information on this issue.

For Dutch life insurers, the mandatory reporting models were applicable from 1925 onwards. They were prescribed for the balance sheet, the profit and loss account, and a number of supporting schedules, mainly dealing with interest income, expenses, investments, and the technical provisions. The act and the models were amended several times in the remainder of the period, but never fundamentally changed. The adoption of the 1964 act for Dutch non-life insurers introduced, from 1967 onwards, prudential reporting requirements which were quite similar to those applicable to life insurance companies, although – in contrast with life insurers – not all non-life insurers’ schedules were made public.

In respect of the financial reporting requirements, the former stalemate situation between the government and Parliament on the publication requirements for joint stock companies was resolved in 1929 (after a first set of amendments of the existing commercial code in 1928). Only public companies had to deposit their balance sheet (which should include a number of specific assets) at the trade register, i.e. make it available for inspection by the public at large. Public companies included those that were listed, but also banks and insurance companies. The publication of an annual profit and loss account was not required. The revised code had therefore, in my view, only a limited focus on investors and was more relevant for creditors. For life insurance companies, the code clarified that they could (i.e. were allowed to) continue to report in accordance with the 1922 life insurance business act (a type 1 single-track reporting approach), but during the parliamentary discussions the government had made it clear that it, effectively, considered this approach to be required despite the legal term ‘allowed’. This was subsequently confirmed by the Insurance Chamber. The 1929 code was amended with the adoption of the 1964 non-life insurance business act, and now required that, for the preparation of their balance sheet, all insurers were subject exclusively to their supervisory acts. In other words, all insurers were required to apply, from 1967 onwards, a type 1 single-track reporting approach, legally reinforcing what had already been applied in practice.
From a financial reporting perspective, the most important event was the adoption of the companies’ annual accounts act in 1970. In the parliamentary debate on the bill for this act, reference was made to the 1967 UK companies act and the first company law directive issued in 1968 by the European Commission, which required all joint stock companies to prepare and publish an annual balance sheet and an annual profit and loss account. The 1967 UK act succeeded, but did not fundamentally change, the 1947 act, which had introduced the requirements of a “true and fair” view in the financial statements, consolidated accounts, and the prohibition of secret and undisclosed reserves. Banks and insurance companies were exempted from this prohibition, and although the latter were not permitted anymore to use their prudential returns as their official financial statements (a type 1 single-track reporting approach), they were allowed to continue reporting under the accounting principles of the prudential acts. In my view, this can be characterised as a type 3 approach: the basic principle of aligning both sets of information was maintained, but additional information had to be provided.

However, the bill for the Dutch 1970 act was in particular based on the recommendations of a government advisory committee published in 1964. It proposed that the financial statements should present “faithfully and consistently” the financial position and the return on invested capital, as well as the solvency and liquidity position of the reporting company. Furthermore, the accounting policies should satisfy norms that “were considered to be acceptable in the economic and social climate”. The bill was a legislative response to a number of private developments between mid-1950 and mid-1960. Next to the activities of the Amsterdam Stock Exchange, which required the publication of comparative amounts and consolidated financial statements from 1958 onwards, this concerned the introduction of an award for the best financial statements, and the publication of several reports by the Dutch employers’ organisations, the ‘think tanks’ of two political parties, and an investors’ organisation. They were all focused on improving the quality of the financial statements in the interest of investors and the public at large. In a number of these reports, reference was made to the developments in the UK, but in particular in the US, for instance in respect of the publication of consolidated accounts.

None of the reports referred to insurance companies or provided an explanation why they were left out. In my view, a viable explanation is that the issuers of the reports did not consider it necessary to deal with the insurance industry, since life insurers were, as is described above, already subject to extensive reporting requirements, the results of which were available to the public, and non-life insurers were put under a similar regime in the mid-1960s. Because of this, I consider it highly likely that the issuers assessed that the need to improve the financial reporting practices in other parts of the Dutch business community was much more urgent and had decided to leave the insurance industry alone.

In these private initiatives, the preparers took the lead, which can possibly be explained by the international expansion and US listings of several large Dutch companies and, as a consequence, their exposure to the US trend to improved financial reporting practices, as is described below. Also the Dutch auditing profession became more active in the 1950s, even though the appointment of an auditor was not (yet) legally required. This was not just by the extensive involvement of its influential member Kraayenhof in a number of these developments, but also by issuing comment letters on proposals and by publishing reports dealing with the abolishment of secret and undisclosed reserves, and with accounting for deferred tax.
Although the financial reporting developments in the US did not directly impact the Dutch legal requirements, they did influence, as is noted above, the Dutch discussions occurring and the reports issued in the 1950s. The US reporting environment changed fundamentally with the establishment of the ‘SEC’ in 1934,\(^9\) which was given broad authority to determine the accounting practices by companies listed on a US stock exchange. However, whenever possible, the SEC refrained from issuing own pronouncements and relied on the private sector, in particular the auditing profession, to develop the accounting standards that had to be applied. In response, this profession responded by the creation of technical committees, which issued pronouncements on a wide variety of topics. Of these committees, the ‘APB’,\(^10\) created in 1959, had a large influence on the financial reporting developments in the period. The US developments did not impact the US insurers, since state legislation required them to report in accordance with the prudential requirements:
a type 1 single-track reporting approach, which was, however, subsequently changed into
a type 3 approach when insurers started to present additional information.

9.5.3.2 The application in practice
In the period summarised in this section, all reviewed insurers applied a type 1 single-track reporting approach. The level of diversity in respect of the formats of the balance sheets and the profit and loss accounts of the life insurers disappeared completely after the introduction of the mandatory models under the act of 1922. All applied them and added only a very limited number of lines.

All life insurers and most non-life insurers also presented movement schedules of their reserves, as was required under the models, but no cash flow statements. Accounting policies were still not consistently and completely disclosed (although more and better understandable than in the previous period), and even if this was the case, they were not always sufficiently clear to determine with certainty what they included. Comparative amounts were presented by all life insurers in the notes, as was required by the models under the 1922 act; they did not allow the inclusion of such amounts in the balance sheet and the profit and loss account themselves. Such limitations did not exist, before 1967, for non-life insurers and most of them provided comparative amounts in their primary financial statements. From 1967 onwards, this was a requirement under the models of the non-life insurance business act.

As the holding companies of insurance groups were not subject to insurance supervision, they produced no prudential returns and had to comply only with the 1929 commercial code. The only holding company that existed before the creation of the Nationale-Nederlanden in the early 1960s was the AMEV. Its financial statements were very limited and were not aligned with the formats applicable to a life insurer, since the AMEV was, before its listing in the 1960s, a family-owned company that was not subject to any publication requirement. This changed after its listing, when it, as was the case for the Nationale-Nederlanden, started to publish consolidated financial statements, driven by the requirements of the Amsterdam Stock Exchange.

---

\(^9\) The ‘SEC’ was the ‘Securities and Exchange Commission’, created in 1934 after the US financial depression in the 1920s/early 1930s, to administer, in the interest of investors, the application of two acts dealing with the issuance of securities in interstate markets and the trading of securities on national securities exchanges.

\(^10\) This was the ‘Accounting Principles Board’, created in 1959 by the US auditing profession to strengthen the process of setting accounting standards.
The formats of the consolidated balance sheets of the AMEV and the Nationale-Nederlanden showed, initially, considerable alignment with the models under the life insurance business act 1922, but subsequently also with the 1964 models proposed by the government advisory committee and, at the end of the period, with the companies’ annual accounts act of 1970. The companies systematically adopted identical or similar accounting policies as their Dutch insurance subsidiaries. In other words, after the initial application of a type 10 single-track reporting approach, they moved to a type 12 approach.

The level of convergence regarding the measurement of investments observed in the previous period changed, to a certain extent, subsequently. In line with the contemporary industry practices, the financial statements showed different systems for the measurement of securities, being the stock exchange value, cost, face or redemption value, or a mixture of these principles. On the other hand, for land and buildings, and for private loans, there was much less diversity: the first category was almost always measured at a conservative basis below the appraisal value (although the clarity of the actual principles varied), and the second category was consistently measured at face value. The accounting methods for unrealised and realised gains and losses on investments were initially not clear in all cases; however, towards the end of the 1960s it could be observed that all companies reported these items directly in the extra reserve or in a separate investment reserve: these were, in substance, the only two reserves reported in the period.

After the adoption of the 1922 life insurance business act, the former differences in the methodology to determine the life insurance provision largely disappeared. All reviewed companies calculated this liability on an annual basis and, apart from one mutual company, all used the net premium method, with a comparable and prudent discount rate. This practice continued until the end of the period, when, driven by amendments in the tax regime applicable to insurance companies, the life insurers started to capitalise and amortise interest rate rebates. This, effectively, meant using a higher discount rate to determine the life insurance provision. Strengthening of the provision, on top of the normal additions, was charged to the profit and loss account, but consistently compensated by visible releases from the extra reserve, credited to the profit and loss account. Regarding the non-life technical provisions, consistent with the previous period no definitive views can be provided, since there was still an overall lack of transparency of the methods used to determine these liabilities.

In respect of the other topics selected for review, the disclosure of solvency information was still not applicable, as there were no requirements. For long-term employee benefits, it was now confirmed that the related liabilities were, if such schemes existed, included in the life insurance provision (as allowed by the Insurance Chamber), although the accounting policies were not disclosed. On deferred tax, the disclosures were insufficient to determine whether the recommendations from the private sector in the mid-1950s and the early 1960s to account for such liabilities were followed. Segment information was only provided by the non-life insurers in their profit and loss account, although the AMEV and the Nationale-Nederlanden expanded their segment disclosures considerably after their listing and presented much more information that was usual at the time. And, apart from the AMEV, none of the companies reviewed in this dissertation disclosed their accounting policies for business combinations.
9.5.3.3 Conclusions
Overall, my conclusions on the findings for the period 1923-1970 are that the developments in financial reporting requirements, whether of a legal or a private nature, did not impact the reporting practices of the Dutch life insurers. From the start, they prepared their prudential statements in accordance with the supervisory regime (which, however, did not include any specifics on the accounting principles). And, as was required by the legislator and, subsequently, the Insurance Chamber, they designated and published these statements as their official financial statements (a type 1 single-track reporting approach). As was the case in the previous period, these accounts included much more information than was provided by non-insurers at the time, and were also much more harmonised, although the differences in accounting policies for investments continued to exist. Despite this, a user with sufficient industry knowledge was able to assess the solvency position of a life insurer. The reporting practices of non-life insurers were also, in my view, considerably better than those of non-insurers, even though they were only subject to supervision from the mid-1960s onwards and, from 1967 onwards, had to apply a type 1 single-track reporting approach as well.

The private initiatives to improve financial reporting, in particular those of the Amsterdam Stock Exchange, did impact the reporting practices of the holding companies once they were listed at this exchange. They based their annual accounts largely on those of their life and non-life insurance subsidiaries, but also incorporated (proposed) new formats for their balance sheet and profit and loss account, and presented comparative amounts in their primary financial statements, consolidated financial statements, as well as, compared to contemporary practices, much more extensive segment information: a type 12 single-track reporting approach.

Overall, it is in my view clear that the financial reporting practices of the Dutch insurers, both holdings and subsidiaries, were, despite the growing attention for providing information to the public at large, still primarily determined by the prudential requirements. Under these requirements, the insurers provided much more financial information and were, therefore, more transparent than most other companies in the Netherlands: a paradox one would not expect to occur. Whether or not this was because the tension between reporting to investors and to supervisors observed today was not yet identified or perceived as such (because there was not yet a clear focus on the information needs of investors), or because it was considered more natural for insurance groups to apply prudent accounting principles, is impossible to assess. I have not found any indications or evidence of the application of prudential filters by the Insurance Chamber.

9.5.4 The period 1971-1989 – the single-track reporting approach continues, but starts to be questioned
After the adoption of the 1970 companies’ annual accounts act, a single-track reporting approach continued as a widely applied option under this act, although it started to be questioned and the type of approach changed. This criticism was partly linked to the establishment of the IASC and independent accounting standard setters in the Netherlands and the US, and the adoption of several European accounting directives. Together, they introduced an increased focus on the information needs of investors and the public at large, creating some tension with the objective of the prudential supervisors. These developments and their interaction are presented in chapter 6 and summarised hereafter.
9.5.4.1 The legislative developments

The 1970 Dutch companies’ annual accounts act, effective from 1 January 1971 onwards, focused on the need to provide relevant information to interested parties (which were primarily defined as the shareholders) and ended the period of relative freedom under the 1929 commercial code. The act introduced much stricter and more severe financial reporting requirements under the concepts of “faithful representation” and “sufficient insight” and defined a number of minimum items for the balance sheet and the profit and loss account. It stated that the accounting policies had to “satisfy norms that were considered acceptable in the economic and social climate”, but provided no detailed guidance on what these norms were. This was left to the private sector, which responded by the creation of the TO, consisting of representatives of auditors, employers and employees. The act was applicable to supervised insurance companies, but with an important exception: in their case, the prudential returns could be designated and published as the official financial statements if, and only if, all information required by the companies’ annual accounts act was included: a type 3 single-track reporting approach. In other words, it was an option (not a requirement) subject to certain limitations, and the parliamentary history made it clear that the exemption focused on disclosures, as the act did not include detailed guidance on accounting policies.

The 1970 act was included in the Dutch civil code in 1983, when implementing the 1978 European fourth directive on the annual accounts for all joint stock companies except banks and insurers, for which separate directives would be developed. Subsequently, the civil code was amended in 1988 to incorporate the 1983 European seventh directive on the consolidated accounts. These directives regulated the structure and the contents of the (consolidated) annual accounts. Their main objective was to protect the interests of shareholders and third parties. They introduced mandatory formats of the balance sheet and the profit and loss account, accompanied by detailed regulations on the accounting principles under the ‘true and fair view’ notion. However, to accommodate existing differences in practice in the member states, the directives also included a large number of options and alternatives, to be implemented or rejected at the discretion of the member states.

The implementation of the fourth directive introduced, for the first time in the Netherlands, mandatory formats for the balance sheet and the profit and loss account, and several detailed accounting principles. The new requirements explicitly maintained the existing option for insurers to apply a single-track reporting approach and even expanded it: the mandatory formats of the civil code were not applicable, and the accounting principles for investments and technical provisions had to be “in accordance with principles which were considered to be acceptable in the industry”. The legislator refrained from defining the meaning of this term, and, although no direct evidence could be retrieved, there are, in my view, clear indications that this was done by the insurance industry itself through its ‘Association of Insurers’. The exceptions to the general financial reporting requirements were also available for the financial statements of holding companies of insurance groups, and maintained during the implementation of the seventh directive in 1988.

As is noted above, the Dutch legislator left it to the private sector, in practice the TO and subsequently the RJ, to provide guidance on the “norms that were considered acceptable in the economic and social climate”. To achieve this goal, the TO/RJ published a large number of ‘considered views’ and, subsequently, ‘guidelines for the financial statements’, in which it, from 1977 onwards, systematically took the pronouncements issued by the IASC into consideration.
In general, there were only minor differences between the guidelines of the TO/RJ and the standards of the IASC, and, at the end of 1989, most of the first 24 standards were incorporated in the Dutch guidelines.

The IASC was created in 1973 by a large number of national auditing organisations, including those of the Netherlands, the UK and the US. Its aim was to develop global financial reporting standards with a focus on the public interest, by eliminating unacceptable practices and by limiting diversity or, at the very least, making such diversity transparent. As the intention, in the beginning, was not primarily to impose uniformity, the early standards included many options to accommodate existing practices. It was only at the end of the 1980s that the IASC, stimulated by security market supervisors (in particular, the ‘IOSCO’ and its influential member the US SEC), started to improve comparability by abolishing options to serve the needs of users.

The establishment of the IASC had a significant impact on the financial reporting requirements in a number of countries, including the Netherlands and the UK (but not the US), although this was not immediately the case for all standards. At the end of 1989, the position of the IASC in respect of the financial reporting developments in Europe was strengthened by an unexpected position statement of the European auditors’ association ‘FEE’, which characterised the IASC as the most important driver for further European accounting harmonisation. This view was not immediately welcomed and supported by senior staff of the European Commission. However, as is shown in the next sections of this summary, this would change in the 1990s.

The growing interest of the Dutch auditing profession in the actual financial reporting practices of companies listed on the Amsterdam Stock Exchange resulted in a number of (bi)annual publications on several topics. The studies focused on compliance with the contemporary accounting standards (both legislative and issued by the TO/RJ), and identified areas of divergence and/or improvement. Until the mid-1980s, insurance companies were, generally, not included, partly because of their special nature, but also since there was no guideline (yet) for the financial statements of these companies, although the RJ had discussed a draft and expressed dissatisfaction with the methods to determine the life insurance provision and with the diversity in accounting for investments.

The most important development in the US, which did not directly impact the Dutch financial reporting environment but would, as is shown later in this summary, have some influence on the financial statements of AEGON and ING, was the establishment of the ‘FASB’ as the independent accounting standard setter, immediately recognised as such by the SEC. Investors and creditors were identified as the primary users of financial statements, complemented by employees.

---

11 The IOSCO was the ‘International Organisation of Securities Commissions’, originally established in 1974 to serve the interest of investors by supervising securities markets and formulating financial reporting requirements applicable to listed companies.

12 This was the ‘Fédération des Experts Comptables Européens’, created in 1987 and originally established in 1951 as the ‘Union Européenne des Experts Comptables Economique et Financiers and the Groupe d’Etudes des Experts Comptables de la C.E.E.’ (the ‘UEC’) to unite the national auditors’ organisations in Europe.

13 This was the ‘Financial Accounting Standards Board’, created in 1973 by the US auditing profession as an independent body, not as one of its committees.
The FASB issued a large number of standards, including FAS 60 and FAS 97,\(^\text{14}\) which dealt with the financial statements of insurance companies and regulated the accounting principles for the technical provisions (including policyholders profit participation) and the investments. From the end of the 1980s onwards, the FASB became also active on the international level, when it began attending and participating in the IASC meetings as a guest, bringing an additional US flavour to the global discussions. One of the direct consequences of the creation of the FASB was that the SEC stopped, in 1974, accepting that financial statements of US insurers were prepared under the prudential reporting requirements (a single-track reporting approach), as these focused mainly on a prudent representation of the financial position based on a liquidation scenario and not on providing decision useful information to investors and creditors. As a result, insurance companies started using the pronouncements issued by the FASB as their financial reporting regime. Combined with the expanded prudential reporting requirements under the models of the NAIC, in particular the enhanced specification of mandatory recognition and measurement principles for supervisory reporting, this led to two completely separate reporting regimes for US insurers.

The main developments in the UK concerned the implementation of the pronouncements of the IASC and the European directives, which may have resulted in a change from a type 3 to a type 4 single-track reporting approach, as was the case in the Netherlands, described next.

In respect of the Dutch prudential reporting developments, the main events were linked to the implementation of the first European prudential insurance directives. The result was an insurance business supervision act, adopted in 1986, covering life and non-life insurance companies.

Among others, these European directives introduced a licensing system and solvency requirements, and mandated annual accounts to be made available to the shareholders and the public at large, as well as prudential returns to the insurance supervisors. The directives explicitly empowered the latter to determine the available and required solvency margins on the basis of the financial statements or the prudential returns by the application of prudential filters. This mechanism enabled the (continued) use of a single-track reporting approach. However, the first prudential directives provided no requirements in respect of accounting principles and made no reference to the accounting directives although a directive dealing with the annual accounts of insurance companies was, at the time, already under development. Furthermore, these directives did not include any pronouncements on the relationship between the annual accounts and the prudential returns. The prudential and accounting directives seemed to have been developed completely independently, and cross-references between the two were completely absent. In my opinion, the introduction of the possibility to apply prudential filters can be seen as an indication that the legislators and insurance supervisors had started to adopt the view that the prudential returns prepared without prescribed accounting policies might not always be appropriate for prudential supervision.

The Administrative Decrees under the 1986 Dutch act introduced regulations on the technical provisions (without, however, detailed rules for their calculation), solvency requirements, and revised prudential reporting models on a consolidated basis although the consolidation of insurance subsidiaries was prohibited.\(^\text{15}\)

\(^{14}\)‘FAS’ stands for ‘Statement of Financial Accounting Standards’.

\(^{15}\)In practice, this prohibition did not create any problems, as it was resolved by the creation of holding companies, avoiding one insurer owning another.
The schedules under these models were split into a publicly available part and a confidential part for the Insurance Chamber. In particular the introduction of the solvency requirements and the mandatory publication of the required and available amounts (including, if applicable, prudential filters) was a novelty for the Dutch prudential reporting requirements. As was the case for the directives, the Dutch prudential regulations and models included neither prescribed accounting principles nor a link to the financial reporting developments. Insurers were, if the disclosure requirements in the civil code were met, still allowed to apply a single-track reporting approach, but it changed in 1986 from a type 3 to a type 4 approach. In these developments, the Insurance Chamber continued to be passive, at least in the public domain: apart from some specific requirements applicable to health insurers, it refrained from issuing public pronouncements in respect of the accounting policies to be applied by insurers.

A second development in Dutch prudential supervision concerned the abolition, at the end of the period, of the prohibition of cross-participations between banks and insurers (the structural policy), which had existed for several decades. This paved the way for the creation of important financial conglomerates such as Fortis and ING.

9.5.4.2 The application in practice
In presenting my findings on the reporting practices of the companies reviewed in this dissertation, from 1970 onwards a clear distinction needs to be made between the supervised Dutch insurers and their holding companies. This distinction concerned, in particular, the structure and the contents of the financial statements: the accounting principles adopted by the holdings were, in substance, generally similar to those of their Dutch insurance subsidiaries (a type 12 single-track reporting approach).

Similar to the rest of the Dutch insurance industry, these subsidiaries consistently used the legal possibility to designate and publish their prudential returns as their financial statements (initially, under a type 3 single-track reporting approach). The amendments in the annual accounts were, generally, caused by changes in the prudential requirements, for instance the preparation of consolidated statements and the disclosure of the required and available solvency margins (including prudential filters) from the mid-1980s onwards (a type 4 approach). Additional schedules, such as a statement of source and application of funds, were not provided.

The former diversity in the accounting principles for investments diminished considerably. From 1971 onwards, land and buildings as well as shares were almost consistently reported at (estimated) market value, and fixed-income investments at redemption value with the amortisation of differences between this value and cost over the life time of the instruments. Unrealised gains and losses were always reported in the reserves, as were, until the mid-1980s, most realised gains and losses. From 1985 onwards, almost all companies included realised gains and losses on land and buildings and on shares in the reserves, and realised gains and losses on other investments in the profit and loss account, generally spread over five years. I consider it highly likely that this was the result of agreements made in the Association of Insurers. Only one group continued to report the realised amounts in the reserves.

16 As is explained when describing the next period, this was similar to the reporting practices of the Dutch banks, which also applied a type 4 single-track reporting approach.
For the major part of the period, the life insurance provision was consistently reported under the net premium method, with a discount rate gradually increasing to about 4% and capitalised interest rate rebates capitalised and amortised in accordance with the Dutch fiscal parameters. The calculation methods of the technical provisions of the non-life insurers remained as vague as before, although some companies disclosed the existence of non-quantified safety margins or contingency/catastrophe provisions. From the 1980s onwards, all companies added provisions for claims handling expenses, and most companies showed separate 3-4 year funds for marine and aviation insurance business.

The formats of the balance sheet and the profit and loss account of the holding companies were mixtures of the prudential models and the line items in the companies’ annual accounts act, subsequently replaced by the formats resulting from the implementation of the European fourth directive. But, more importantly, the financial statements showed an increased focus on the needs of investors. Examples were the consistent publication of consolidated accounts and comparative amounts. Furthermore, the holding companies gradually started presenting information by business and geographical segments, subtotals within the profit and loss account, and a statement of source and application of funds. Movements of reserves were presented by all companies, showing items such as gains and losses on investments, goodwill, foreign currency differences, the impact of changes in accounting policies (including harmonisation effects after a merger or an acquisition), and the strengthening of the technical provisions. With one exception, the financial statements of the holding companies were not impacted by changes in foreign financial reporting requirements or foreign listings. This exception was AEGON, which, after its US listing in the mid-1980s and compliant with the SEC requirements, presented a reconciliation of equity and net profit between the Dutch and the US accounting standards.

Regarding the other selected elements of financial reporting, my findings were that the obligations in respect of Dutch pension schemes were included in the life insurance provision; the accounting principles for foreign schemes were, generally, not disclosed. Deferred tax was provided for, mostly on a discounted basis, although the rates applied were not always disclosed. Furthermore, segment information was more and more presented, based on the prudential requirements (for the supervised subsidiaries) or the organisational structure of the groups (for the holdings). And, finally, all mergers were reported under the ‘pooling of interests’ method, and all acquisitions were accounted for using the ‘purchase accounting’ method, with goodwill consistently charged to the reserves.

Near the end of the period, the application of a single-track reporting approach started to be questioned. It were in particular two students, Joosten and Agasi, who, based on a comprehensive comparative study of the 1986 and 1987 financial statements of Dutch insurers, came to the conclusion that it was not possible to meet the objectives of reporting to supervisors as well as to investors under the prevailing single-track reporting approach. At the time, I shared their concerns when I assessed the 1988 reporting practices of Dutch life insurers and questioned whether, given the different objectives of reporting to investors and to prudential supervisors, the existing practice of applying a single-track reporting approach should be continued. Among others, I argued that the application of the net premium method (also discussed by the RI) and the variety of discount and mortality rates raised the question whether the legal requirement of ‘sufficient insight’ was met.
To resolve this situation, one approach could be to apply the US system, based on two distinct reporting regimes. Alternatively, the solution could be to continue a type 4 single-track reporting approach, with full disclosure of the prudential adjustments, which, in my view, was also of interest to investors. As is described when summarising the developments in the next period, soon after I was not the only one raising these fundamental questions.

9.5.4.3 Conclusions
In the period 1971-1989, the financial reporting requirements changed substantially, focusing on providing decision useful information to shareholders and interested parties, and resulting, in general, in much stricter and severe reporting requirements for listed and non-listed companies. Although it was recognised that supervisors were one of the interested parties, the changes did not focus on their roles, but on investors and the public at large. Clear examples were the requirements to provide comparative amounts in the primary financial statements and to prepare consolidated financial statements.

On the other hand, the legislative changes in financial reporting requirements and the establishment of national and international accounting standards did not seem to have impacted the actual practices of insurers and the holding companies of insurance groups directly. This was partly because specific legislation and standards on the annual accounts for insurance companies were not yet present and both insurers and holdings were allowed (but not required), if certain disclosure requirements were met, to maintain a single-track reporting approach. In my view, it was clear that the prudential requirements and practices still determined the applied accounting principles, but my findings also show that the structure and contents of the financial statements became more investor-oriented by providing additional information, even before this was required by the Dutch financial reporting requirements. This dominance of the prudential requirements started to become criticised near the end of the period, and also insurance supervisors seemed to recognise the need for adjustments of the reported amounts by the application of prudential filters. The debate on the continuation of the single-track reporting approach had started.

9.5.5 The period 1990-1999 - the single-track reporting approach maintained, despite growing criticism
Despite growing criticism, the single-track reporting approach was maintained in this period as a result of a number of legal developments and a guideline of the RJ. However, its substance changed again and the dominance of the prudential requirements decreased. These developments are described in chapter 7 and summarised hereafter.

9.5.5.1 The legislative developments
The Dutch financial reporting developments started with the implementation, in 1993, of the European banking accounts directive, which was adopted in 1986 and complemented the fourth and seventh directives. This was relevant for the two financial conglomerates Fortis and ING.

The implementation act introduced mandatory formats for the balance sheet and the profit and loss account of banks. As a result of the recommendation of the ‘DNB’, whose views – as the banking prudential supervisor – could not be ignored, the implementation exercise maintained the prevailing type 4 single-track reporting approach for the Dutch banks. As a result of the legal developments, the Dutch banks abolished the use of the undisclosed provision for general (banking) risks in 1997.

17 This was 'De Nederlandsche Bank' (the 'Dutch Central Bank').
The second important legal development concerned the implementation, also in 1993, of the European insurance accounts directive, adopted in 1991, introducing mandatory formats for the balance sheet and the profit and loss account of insurers, and complementing the earlier accounting directives. The implementation act incorporated a large number of options in the directive, in particular in respect of the accounting treatment of investments. The directive only included generic requirements regarding the technical provisions (they should, at all times, be sufficient) and made no reference to the prudential directives. Regarding these provisions, the Dutch implementation act did not include specific accounting principles either, but, in contrast with the directive, referred to the prudential reporting requirements described hereafter. This is, in my view, a clear indication that the Dutch government, at least in respect of the insurance-technical items in the financial statements of insurance companies, wanted to maintain the existing situation under which the prudential requirements played a dominant role in the determination of the accounting principles in the financial statements of insurers. The Dutch implementation act had no impact on the prevailing single-track reporting approach, since the flexibility resulting from the options in the directive enabled the member states to maintain this approach. Holding companies of insurance groups were allowed to apply the models and accounting policies of the act and could, therefore, continue their type 12 single-track reporting approach.

In respect of the annual accounts of financial conglomerates, the implementation of the banking and insurance accounts directives in the Dutch legislation resulted in the requirement that the banking segments had to be reported in accordance with the banking accounts directive and the insurance segments in accordance with the insurance accounts directive. Furthermore, the amount of equity for the combined banking operations and the combined insurance operations had to be disclosed.

The activities of the RJ continued to be dominated by its attempts to incorporate the pronouncements of the IASC as much as possible. This was evidenced by a statement in 1997, in which the RJ made it clear that it would no longer just take IAS “into account” in developing its own guidelines, but use IAS “as the starting point”. The IASC continued its work by issuing a number of new or revised pronouncements, in particular in the area of the removal of options and the completion of a set of core standards, agreed with the IOSCO. These activities showed, in my view, an increasing focus of the IASC on the information needs of investors. The IASC pronouncements were, generally without significant changes, incorporated in the Dutch guidelines of the RJ, which, therefore, demonstrated more attention for the interests of investors as well. The activities of the IASC were also monitored on the European level, where the European Commission started a debate in the early 1990s on a fundamental reform of the European financial reporting framework, considering the use of IAS for the financial statements of European companies. The Dutch and European attitudes toward IAS were, therefore, considerably different than those in the US, where the issuance of two FASB reports, issued in the mid-1990s and at the end of the decade and prepared at the request of the SEC, identified a number of so-called ‘variations’ between the US financial reporting requirements and IAS. According to several non-US commentators, these reports demonstrated that the US was not at all inclined to adopt IAS as the basis for financial reporting practices for US or US-listed companies.
At the end of 1998, the RJ issued a guideline on the financial statements of insurance companies. This occurred at the time that, as is described in the next section, the IASC had only recently started its own project on insurance contracts. In that sense, the adoption of the guideline was a deviation from the stated RJ policy that it would take the IASC developments as a starting point for its own pronouncements. The guideline concluded a debate started in the 1980s, effectively converting the legal financial and prudential reporting requirements into RJ pronouncements and recommending a clear and straightforward single-track reporting approach without, however, defining the type of approach. The guideline was applicable to holding companies of insurance groups as well.

The RJ maintained all options included in the act to implement the European insurance accounts directive, but went, in one respect, one step further. This concerned the accounting for realised gains and losses on investments in land and buildings and in shares using the so-called ‘structural indirect return method’, which was neither included in the insurance accounts directive nor in the Dutch legislation. As a result, this decision was heavily contested, in particular by Oosenbrug.\(^\text{18}\)

His opposition did not stop a number of Dutch insurers, with AEGON as one of the first adopters (in 1995), to continue applying the method, now officially sanctioned by the RJ, in their annual accounts. The publication of the guideline also provided further input to the debate on the need to make a clear distinction between financial and prudential reporting practices, started in the previous period. Again, it was in particular Oosenbrug who took a firm position, stating that it was obvious that such a distinction was necessary given the different objectives of reporting regimes and strongly rejecting the continuation of the existing type 4 single-track reporting approach. However, for supervised insurers it was, in my view, clear that they did not have an alternative: as is explained above, this linkage was dictated by the legislator.

The RJ guideline on the financial statements of insurance companies included no signs that the developments in the US or in the UK had been taken into account. In the US, two new insurance standards, FAS 113 and FAS 120, were issued, and the clear distinction between financial and prudential reporting was maintained. In the UK, the growing criticism about the quality of the annual accounts of life insurers had led to a new disclosure, called ‘embedded value’, which showed the future cash flows to shareholders on a ‘realistic’ instead of on a ‘prudent’ basis. This signalled, in my view, the end of the prevailing UK type 3 or type 4 single-track reporting approaches.

In the period 1990-1999, the European supervisory system of both banks and insurance companies was completed. Although there were several similarities, in particular the concepts of ‘single license’ and ‘home country control’, there was, however, one important difference: supervision of banks was exercised on a consolidated level, and of insurers on a ‘solo-plus’ basis. The latter meant that the supervision focused on the individual insurance company, supplemented by inspection and assessment of the relationship of this company with its parent company and other companies within the group. However, if these other companies were not active as insurers or as banks, they were not subject to direct supervision. The European directives were implemented in the Dutch legislation in 1992 for banks and in 1993 for insurers. For non-life insurers, the prudential reporting requirements were aligned with the financial reporting requirements, with, to my knowledge for the first time, the latter prevailing (a type 8 single-track reporting approach).

---

18 Oosenbrug was a Dutch actuary and auditor and, at the time, a professor in insurance financial reporting at the Erasmus Finance & Insurance Centre in Rotterdam.
This was, however, not the case for life insurers. The third life insurance directive included specific regulations to determine the life insurance provision, which were subsequently included in the Dutch Administrative Decrees. Since the financial reporting requirements for life insurers, both those included in the civil code and those in the RJ guidelines, referred to these prudential requirements, the latter continued to prevail and determine the reporting practices of supervised life insurers in respect of their technical provisions and insurance-related figures. The prudential requirements were silent on the accounting treatment of the investments; therefore, in these areas the financial reporting requirements were leading. Because of the importance of both the investments and the technical provisions in the financial statements of a life insurer, the coexistence of two leading reporting regimes required me to make a professional judgement call to determine the type of single-track reporting approach. As the presence of the technical provisions is one of the key elements that distinguish a life insurer from all other commercial companies, I have chosen to classify the legislative requirements as a type 4 approach.

9.5.5.2 The application in practice

Insurance subsidiaries consistently applied the models prescribed by the prudential reporting requirements and designated the prudential returns as their financial statements (a single-track reporting approach). As a result, solvency information was disclosed and statements of source and application of funds or of cash flows were not provided. The accounting policies of the subsidiaries were similar or identical to those applied by the holding companies. For these reasons, the following description focuses on the holding companies.

Regarding the formats of the primary financial statements, AEGON consistently used the mandatory formats for insurance companies (a type 10 approach). On the other hand, Fortis and ING, as two financial conglomerates, had to find solutions to present their consolidated financial statements in accordance with the financial reporting requirements, which were, in early 1990s, not tailored to their combination of banking and insurance activities. Fortis presented different formats over the period, grouping items initially by nature, then by segment, and subsequently again by nature. ING, on the other hand, consistently presented the items by nature without making a distinction between banking and insurance business. Additionally, both presented segmental balance sheets and profit and loss accounts. In summary, both Fortis and ING maintained a type 12 single-track reporting approach. All holding companies consistently provided consolidated and unconsolidated information and, for most of the period, a statement of source and application of funds, subsequently replaced by a statement of cash flows prepared under the indirect method.

All holding companies added, for one or more years, some lines to the mandatory formats, in particular subtotals or separate lines for items in the balance sheet and/or in the profit and loss account. Examples were operating results, unrealised and/or realised gains and losses on certain types of investments, and special or extraordinary income and expenditure. The movement in the reserves concerned, in particular, goodwill and the impact of mergers, the impact of changes in accounting policies, and unrealised gains and losses on investments, complemented by realised gains and losses on investments transferred from the reserves to the profit and loss account. Fortis and ING charged, in some years summarised in this section, amounts to the reserves to strengthen their technical provisions. Solvency information on consolidated level was only disclosed by ING, starting in 1999.
Regarding the investments, the measurement bases in the balance sheet were consistent over time and between the companies. Land and buildings were reported at appraisal value, shares at the stock exchange value or estimated sales value, and fixed-income investments at amortised cost less impairment losses. The companies also reported consistently all unrealised gains and loss on investments in the reserves. However, as was allowed under the financial reporting requirements, there continued to be a large diversity in the accounting for realised gains and losses, and the accounting policies were changed several times.

Fortis reported, until 1992, all such amounts in the profit and loss account. Subsequently, it changed this policy for realised gains and losses on the sale of fixed-income investments which were replaced by similar instruments: in such cases, the realised amounts were spread over the remaining life time of the sold investments. Such a spreading for these investments was also applied by ING until 1992, a practice that was subsequently expanded to the sales of all fixed-income investments. For land and buildings and for shares, ING reported realised gains and losses until 1996 in the reserves, but, from 1997 onwards, in the profit and loss account, to achieve “greater conformity with IAS” (without, however, indicating the standards involved). AEGON consistently spread the results on the sale of fixed-income investments for the whole period. For the results on sales of land and buildings and for shares, it introduced an important accounting policy change in 1995. Before that year, all realised amounts were reported in the profit and loss account. But from 1995 onwards, AEGON applied the structural indirect return method for its life insurance business, which practice was expanded to all activities in 1997. Under this method, AEGON initially reported all realised gains and losses in the reserves, and subsequently transferred amounts from the reserves to the profit and loss account to present a long-term investment return.

The life insurance provision was consistently calculated under the net premium method, although both AEGON and Fortis started, in 1990, to capitalise and amortise acquisition costs. The definition of these costs, however, differed, with AEGON taking a more aggressive approach by including more costs in this system than Fortis. On the other hand, ING only introduced capitalisation and amortisation of acquisition costs in 1995. Regarding the discount rate to determine the life insurance provision, no conclusions could be drawn, since the level of disclosure decreased considerably compared to the previous period. However, because of the direct link between the financial and the prudential reporting requirements in respect of this provision, I consider it highly likely that also this important parameter to determine the life insurance provision was mainly influenced by the prudential reporting requirements and based on prudent rates. The disclosures of the methods to determine the non-life insurance provisions remained, as was the case in the past, rather vague. However, an analysis in the early 1990s showed that the provisions for claims outstanding were, for the industry as a whole, calculated on a (very) prudent basis, showing significant positive run-off results, in particular when comparing these amounts to the net results.

For long-term employee benefits, the companies started, during part or the whole of the period, to use IAS or US GAAP to report their liabilities. Regarding the provisions for deferred tax, it was not always clear whether and at what rate the fiscal equalisation reserve was included. Segment information was consistently disclosed by all companies, although ING only started to present full balance sheets per segments in 1993. And concerning business combinations, all companies continued charging goodwill directly to the reserves.
Finally, both AEGON and ING presented, as was required by the SEC, reconciliations of their equity and net profit between Dutch GAAP and US GAAP after they were listed in the US.

9.5.5.3 Conclusions
Overall, this summary for the period 1990-1999 shows, in my view, that the financial reporting requirements were expanded again, both from an international, a European and a Dutch perspective. This resulted in an increased focus on the information needs of investors, and triggered, as a result, growing criticism on the prevailing single-track reporting approach of Dutch insurers and their holding companies. However, in practice this approach was maintained, stimulated by legislative developments and pronouncements of the RJ, although, in my view, the substance had been changed compared to the previous period: the prudential reporting requirements still dominated the reporting practices for the technical provisions and the insurance-related figures for life insurers, while all other amounts in the prudential returns and financial statements of all insurers were now subject to the financial reporting requirements. Because of these requirements, the non-life insurers applied a type 8 single-track reporting approach. On the other hand, I classify, based on a judgement call, the reporting practices of life insurers as a continuation of the type 4 approach.

9.5.6 The period 2000-2005 – the single-track reporting approach strengthened on the basis of IAS/IFRS
The criticism of the single-track reporting approach expressed in the past completely disappeared in the period 2000-2005 as a result of a deliberate decision by the European and Dutch legislators to maintain and even strengthen the approach, based on IAS/IFRS. The decisions were made at the time that IAS/IFRS was far from completed and stable. These developments are described in chapter 8 and summarised next.

9.5.6.1 The legislative developments
In my view, the most important event was, without any doubt, the conclusion of the debate on the future of the financial reporting requirements in the EU in 2002. In that year, the European Commission issued a regulation requiring all companies listed in the EU to prepare their consolidated financial statements, from 2005 onwards, under IAS/IFRS. Furthermore, these companies were allowed to prepare their non-consolidated accounts under this reporting regime as well. Non-listed companies could also choose to transition from their local financial reporting requirements to IAS/IFRS for both sets of financial statements. The regulation was followed by several amendments of the accounting directives to reduce the number of differences with IAS/IFRS.

However, the EU support for IAS/IFRS was not unconditional: the European Commission created an endorsement mechanism, comprising the ‘EFRAG’ and the ‘ARC’,19 to assess the pronouncements of the IASB (which had, in the meantime, succeeded the IASC) on their technical and political merits before it could officially endorse these pronouncements for the use by European companies. Apart from one detail in IAS 39,20 in particular relevant for banks, all standards and interpretations were endorsed in time for their application in 2005.

19 The ‘EFRAG’ was the ‘European Financial Reporting Advisory Group’, created by the private sector in 2001. Its role was to assess the standards from a technical perspective. The ‘ARC’ was the ‘Accounting Regulatory Committee’, established at the same time and including representatives of the member states. Its role was to carry out the political assessment.
20 IAS 39 dealt with the recognition and measurement of financial instruments.
With these decisions, IAS/IFRS was directly applicable to all European companies (including insurers) which were required to apply this reporting regime or chose to do so voluntarily.

In my view, the European adoption of IAS/IFRS was not just an important but also a bold move, since it occurred at a time when a number of standards were still under improvement or even development (such as the one on insurance contracts) and there was not yet a stable financial reporting platform. In fact, the standards applicable to the 2005 financial statements were only finalised mid-2005.

The IAS regulation and the amendments in the directives were subsequently implemented in the Dutch legislation. As usual, the revised directives included a large number of member state options, which were, in line with the traditional Dutch approach, passed on to the reporting companies. However, the government added one option that was not included in the directives themselves: it allowed companies, in their non-consolidated financial statements prepared under the Dutch standards, to apply the accounting policies adopted in their IAS/IFRS-based consolidated financial statements. This resulted in reporting the same amounts of equity in the two sets of financial statements and a continuation of this longstanding Dutch financial reporting practice.

The RJ maintained its approach to incorporate, as much as possible, IAS/IFRS and the supporting interpretations in its own guidelines. This did not occur, however, for a number of important standards issued by the IASC/IASB that were either finalised rather late in the period, or were considered to be not fully acceptable in the Dutch financial reporting environment. The best examples were IAS 39, for which the RJ issued a different standard specifically focusing on the Dutch situation, and a standard on goodwill accounting. For goodwill, the RJ ruled in 2000 that it had to be capitalised and amortised, but it withdrew this requirement in 2005 although the RJ stated that its preference still was to capitalise and amortise instead of a direct charge to equity, and declared a direct charge to the profit and loss account not acceptable. The decision to continue allowing the charge to equity was based on the parliamentary rejection of a government bill to prohibit this accounting treatment. Next to the incorporation of IAS/IFRS, the RJ also issued some guidelines that were not directly related to these activities. One concerned a guideline on the financial statements of banks, issued in 2000, which, however, did not introduce new requirements but merely codified existing practices.

At the end of 2005, most of the IASB pronouncements were included in the RJ guidelines, generally with only minor differences. The important exceptions were the standards on the recognition and measurement of financial instruments, first-time adoption, business combinations and goodwill accounting, insurance contracts, and financial risks disclosures. These were all part of endorsed IAS/IFRS and, therefore, applicable to the 2005 financial statements of those companies that used these standards as their financial reporting regime, although the application of the standard on financial risk disclosures was mandatory only from 2007 onwards. Of these standards, the one on insurance contracts (IFRS 4) had the least impact. It was an interim standard, effectively grandfathering most of the accounting policies applied before the transition to IAS/IFRS, but only for insurance contracts that met the IFRS definition. For the Netherlands, this meant that the life insurance provision for these contracts was still determined by the prudential reporting requirements, but that IAS/IFRS was the leading reporting regime.
The move to IAS/IFRS and the continuing freedom in the Dutch financial reporting legislation forced the RJ to reconsider its position of assisting to determine the Dutch requirements, which were, in reality, only applicable to companies not reporting under IAS/IFRS. In 2005, it decided, in the future, to incorporate the developments in IAS/IFRS only if they were considered adequate for the Dutch financial reporting environment. At the same time, it considered it desirable to avoid, as much as possible, discrepancies between IAS/IFRS and the guidelines by allowing, whenever possible, all options made available by the IASB and to expand them if necessary. And shortly after, based on the political decision not to prohibit a direct charge of goodwill to the reserves (mentioned above), it decided not to limit options that were explicitly included in the civil code, although it could express a preference for one or more options.

In the area of prudential reporting developments, the main Dutch activities concerned the implementation of European directives in respect of the supplementary supervision of insurance groups (based on the solo-plus concept) and an update of the existing solvency requirements. None of these had any impact of significance in the Dutch insurance industry. The first was, effectively, already in place. And the second was irrelevant for the vast majority of the Dutch insurance companies, including those reviewed in this dissertation, since it resulted only in a modest increase of the required solvency margin which was already fully met. Another development was related to the forthcoming introduction of IAS/IFRS as the possible or mandatory reporting regime for Dutch insurers and banks. To enable the continuation of the existing single-track reporting approach, the supervisors announced that if an insurer or bank applied IAS/IFRS in their financial statements, it should apply the same reporting regime in the prudential returns. Where necessary, the supervisors would apply prudential filters to assess the financial position of the reporting companies: a type 8 single-track reporting approach. Subsequent legislative documents showed, however, that the actual impact of these filters was only very limited.

But the main focus was on the development of a completely new and fundamentally revised supervisory regime in the Netherlands, not only merging all existing supervisory acts on financial institutions into one, but also eliminating redundancies and differences where possible. At the same time, the Insurance Chamber started to develop a new financial assessment framework to assist in its review of the solvency position of insurers. It was initially designed to be aligned with the future IASB standard for insurance contracts, and took fair value accounting for all assets and liabilities, including those arising from insurance contracts, as the starting point. This approach showed similarities with the events in the UK, where the fall of one the largest insurers, the ‘Equitable’, triggered a revised set of prudential reporting requirements developed by the insurance supervisor to address the (perceived) shortcomings of the prudential directives. According to the supervisor, these directives did not appropriately take the risks in the liabilities into account, and a number of issues identified after this demise needed to be resolved. This development was actively supported by the issuance of revised accounting standards for the financial statements of insurance companies, based on the revised prudential requirements. Additionally, an agreement was concluded between the UK insurance industry and the standard setter that the new financial reporting requirements would already be applied in 2004 and be taken into account after the transition to IAS/IFRS in 2005. The new prudential and financial reporting standards required the measurement of assets and liabilities on fair (or realistic) values, with all movements in these values reported in the profit and loss account. As a result of these developments, the UK maintained its type 3 or type 4 single-track reporting approach. The developments in the US were limited.
The proposals of the Insurance Chamber represented, in my view, a bold and innovative approach since they were based on a future standard of which the ultimate outcome was, at the time, far from certain. However, after several consultation rounds the project came to a temporary standstill, awaiting the outcome of a similar project that had started at the European level. This was the so-called ‘Solvency II’ project, which was modelled on the approach for a new capital regime for banks. As in the Dutch proposals, it took the IASB developments and full fair value accounting at its starting point. At the end of 2005, both the Dutch and the European project were still not finalised, and the final outcomes are, therefore, outside the scope of this dissertation.

9.5.6.2 The application in practice
Because not all financial statements of the supervised insurance subsidiaries of the three groups reviewed in this dissertation were available for my research, the findings on the actual reporting practices are limited to those of the holding companies.

My review showed a clear trend to further harmonisation of the accounting policies and reporting practices, even before the introduction of IAS/IFRS in 2005. The measurement bases of the investments were, until 2004, identical, and when AEGON abolished, in 2004, its structural indirect return method to account for its realised gains and losses on investments, all companies reported unrealised amounts in the reserves and realised amounts in the profit and loss account. The methods to account for the technical provisions were also described in a similar way, although it was, because of the lack of disclosures of the discount rates, not possible to assess the level of prudence applied by the three companies. The previous differences between the reporting practices for employee benefits and business combinations disappeared as well, but, until 2004, AEGON still seemed to measure its deferred tax provisions on a discounted basis, a practice that was not applied by Fortis and ING. On the other hand, only ING disclosed that it had taken its tax-exempt reserves fully into account in determining its deferred tax provision; the other two companies were silent on this issue. After the transition to IFRS, the financial statements showed even more harmonisation, although Fortis elected to measure its land and buildings on cost minus depreciation, while AEGON and ING continued their practice to report on a fair value basis. And, in contrast with AEGON and Fortis, ING chose not to early adopt the standards on financial instruments and insurance contracts, and showed their impact for the first time only in its 2005 financial statements. A final similarity concerned the presentation of some special items in the profit and loss account. All companies reported, for some or all years until 2005, certain gains and losses as separate lines below a subtotal titled ‘operating result’ or a similar term. In other words, all holdings applied a type 12 single-track reporting approach.

9.5.6.3 Conclusions
These summaries show, in my view, that the single-track accounting approach was still consistently applied, even before it was legally reconfirmed and strengthened. In particular the accounting policies applied to the insurance-technical items (including the technical provisions) of life insurers were not changed compared to the previous period and, as a result, still based on the prudential reporting requirements. On the other hand, my findings also show an increasing focus on the information needs of investors, for instance in respect of the presentation of ‘operating result’, the extensive segment information and the continuing expansion of the size of the financial reports.
Overall, it was clear, in my view, that the concept of a single-track reporting approach had survived all criticism and attempts for change. The introduction of IAS/IFRS had not altered this situation. It did, however, align the approach for life and non-life insurers: all had to apply the type 8 approach from 2005 onwards. And all holdings applied a type 12 approach.

9.5.7 My overall views, conclusions and policy recommendations on the single-track reporting approach

9.5.7.1 Overall views and conclusions

Overall, it is clear that a single-track reporting approach was systematically applied during the period reviewed in this dissertation, although – and this was my most important discovery during my research – its contents changed considerably. While there were, in substance, no financial or prudential reporting requirements before 1922 at all, as a result of which the approach was not applicable or even discussed, this changed subsequently related to the introduction of prudential reporting requirements for life insurers. They were required to use a single-track reporting approach and, because of the lack of effective financial reporting requirements, it was obvious for all involved that this approach was completely based on the prudential requirements (a type 1 approach): a tension between the two sets of requirements was not identified or perceived. The non-life insurers followed this approach from the mid-1960s onwards when they became subject to prudential supervision.

The single-track reporting approach continued to be dominated by the prudential requirements in the 1970s and the 1980s. This occurred despite the introduction of much more specific financial reporting requirements with, over the years, a gradually increasing focus on the information needs of investors and the public at large and, in the mid-1980s, the introduction of the mandatory disclosure of solvency information and prudential filters. As a result, the single-track reporting approach moved from type 1 before 1970, via type 3 until the mid-1980s, to type 4 thereafter. It was only at the end of the 1980s that the approach started to be questioned, and that several authors pointed at the potential or actual tension between the information needs of investors and of prudential supervisors.

The contents of a type 4 single-track reporting approach started to change further in the 1990s related to the introduction of specific financial reporting requirements for insurers. From then onwards, the financial statements of non-life insurers were determined by the financial reporting requirements and the same applied to all non-insurance related items of life insurers. However, the most important liability of life insurers, the technical provision, was still subject to the prudential requirements. Any tensions between the financial and prudential requirements were resolved by the application of prudential filters, enabling the insurance supervisors to adjust or even completely eliminate certain assets or liabilities when they assessed the financial position of insurers. As a result of these developments, life insurers maintained their type 4 approach (under my judgement call), and non-life insurers moved from a type 4 to a type 8 approach.

The debate on the dominance of financial or prudential reporting requirements came to an end in the last year reviewed in this dissertation by the mandatory adoption of IAS/IFRS by all companies listed on an EU stock exchange and the possibility of voluntary adoption by all other Dutch companies. In response to these developments, the Dutch prudential supervisor of insurance companies (as well as of banks) made it clear that it required the continuation of a single-track reporting approach, under IAS/IFRS or under Dutch GAAP, i.e. a type 8 approach from 2005 onwards.
A similar development could be observed at the European level in the development of an entirely new system of solvency requirements, which would also be based, as much as possible, on IAS/IFRS. Where necessary, prudential filters would address the specific needs of prudential supervisors.

The evolution of the single-track reporting approach in the period 1880-2005 is summarised in the following tables.

Table 9.4: Types of single-track reporting approaches for Dutch insurers in the period 1880-2005

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-</td>
<td>Life 1925-1970</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>Non-life 1967-1970</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Table 9.5: Types of single-track reporting approaches for Dutch holdings of insurance companies in the period 1880-2005

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>-</td>
<td>All 1963-1964</td>
<td>-</td>
<td>AEGON 1990-1999</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Table 9.4 shows that, for Dutch life insurers, the prudential reporting requirements dominated, in my view, their reporting practices for almost the full period reviewed in this dissertation: this only changed in 2005 with the mandatory application of IAS/IFRS. As the same time, it should be noted that these insurers, from 1971 onwards, provided additional information based on the financial reporting requirements, which included, from 1986 onwards, solvency information and the related prudential filters. The developments in the reporting practices of Dutch non-life insurers were similar, with one exception: for them, the financial reporting requirements were already leading from 1993 onwards.

Table 9.5 shows, first of all, that the Dutch holding companies of insurance groups systematically adopted identical or similar accounting policies as their supervised Dutch insurance subsidiaries. It also shows that, with some exceptions, the primary financial statements of the holdings were based on the financial, and not in the prudential reporting models.

9.5.7.2 Policy recommendations

Despite my reservations expressed at the end of the 1990s, I now fully support the direction initiated in 2005, and therefore disagree with the views expressed by, for instance, Oosenbrug in the 1990s. In my view, the information needs of both investors and insurance supervisors are best served by a type 8 single-track reporting approach: the financial reporting requirements are leading, and additional information is disclosed to meet the prudential requirements, including the available and required solvency margins and all related prudential filters.
Under this system, both the financial statements and the prudential returns are based on the same set of requirements, enabling an effective and efficient comparison over time and between companies. The disclosure of solvency information and prudential filters enable both investors and supervisor to assess the financial position of the reporting companies according to their own norms, with investors having all information on the solvency requirements applied by the supervisors. In my view, this would also be an effective way to meet the requirements in IAS 1 that “an entity shall disclose information that enables users of its financial statements to evaluate the entity’s objectives, policies and processed for managing capital”,21 and the proposed requirements in the latest IASB exposure draft on insurance contracts, issued in 2013, which suggest that “an entity shall disclose information about the effect of each regulatory framework in which the entity operates; for example, minimum capital requirements or required interest rate guarantees.”22

However, to create a proper balance between the information needs of investors and of prudential supervisors, it would be necessary, in my view, to further strengthen the relationship between the IASB and these supervisors. Although it is already the case today that the Basel Committee and the IAIS are members of or observers in several advisory groups of the IASB, their role should be upgraded and expanded. In my view, the global financial crisis started in 2008 has proven the vital importance of the financial services industry for a healthy global economy, which is in the interest of all, including investors. One way forward could be to appoint a representative of the prudential supervisors as a member of the IASB, an alternative could be to require the IASB to systematically discuss and weight the views of these organisations in its deliberations on new or revised standards. Because of the mandatory transparency in the IASB’s due process, both solutions would ensure public accountability of the IASB on the way they have taken the legitimate interests of prudential supervisors into account. However, to make this work, it would require these supervisors to become more active, and at an earlier stage, in formulating their views and opinions on, in their assessment, the best possible financial reporting requirements. The former attitude of the Insurance Chamber, which kept itself on a distance in the Dutch financial reporting debate for a large number of years, should not be possible anymore.

9.6 Limitations and recommendations for further research

These views and policy recommendations are based on what I have learned from writing this dissertation. As I said before, I was in uncharted territory. To my surprise, it was impossible to retrieve any systematic historical descriptions of the developments of financial and prudential reporting requirements applicable to insurance companies in the UK, the US, the Netherlands, and on the European level from any of the archives or libraries I have visited or consulted. And where such descriptions were available, they only covered small parts of the story or only for short periods. In this sense, this dissertation contributes to the available literature on a number of topics which seem, generally, to have been avoided by many authors.

But, as is always the case in research, my work is subject to certain limitations, either by choice or by practical barriers. And this opens the door to future research projects.

22 IASB (2013), p. 34.
One obvious group of such projects relates to the period described, in particular the end date of 2005. Chapter 8 presents a number of developments in this period that had started but not come to an end. The main example is Solvency II, which project had started, but which is, even in the middle of 2015, still not finalised in all details and effective only from 2016 onwards. And another is the replacement of the IASB’s interim standard for insurance contracts (IFRS 4) by a final standard, on which the discussions are still ongoing in the second half of 2015 and which will, as it looks now, only be mandatory from 2020 or 2021 onwards. Because of the chosen end date of 2005, I have performed neither systematic research on the subsequent developments in these projects, nor on the actual reporting practices of Dutch insurers. And there are even areas of potential further research, along the lines I have already performed, within the period described in this dissertation: in the archives of the Insurance Chamber and the Dutch insurance industry organisation (to identify additional guidance papers or regulations for the Dutch insurance industry) and the developments in the prudential returns of the reviewed insurance subsidiaries after 1998. Despite my attempts, these archives were not (yet) accessible for independent research. These are areas where further research could complement my work and expand the scarce literature on the topics described and analysed in this dissertation.

Likewise, similar work as I have performed could be done for other Dutch insurance companies (to create a more comprehensive analysis for the industry as a whole), and in other areas of the financial services industry, such as banks and pension funds.

In addition to this, this dissertation offers the opportunity to perform similar research in other (European) countries, also providing the basis for cross-country comparison: a proven methodology is now available, and, in particular within the EU, a lot of groundwork has already been done. As is described when presenting the developments in the Solvency II project, a single-track reporting approach was applied by insurers in many European countries. But its national background, limitations and solutions in practice to address the tension between reporting to investors and to prudential supervisors in these countries is still unknown (including the choice in the UK for a type 3 or type 4 single-track reporting approach). In particular, comparing the Dutch developments with those in countries that apply accounting practices on a macro-uniform basis, as is presented in chapter 2, could provide new insights.

Finally, it might be interesting to perform additional research into a completely different direction, mainly focusing on behavioural aspects and the views of society thereon. Relevant questions may be: which positions have the different players in the developments (the insurers, the supervisors, the legislator, the standard setter) taken (and why), were these positions similar or divergent for banks, insurers, and pension funds (and why), and how were these positions assessed by the (financial) press and the public in general? And how were insurers assessed during the financial crisis of the 1920s-1930s and during the Second World War? Performing such research might help to better identify the information needs of prudential supervisors on, for example, management and auditors’ reports, and prepare all players to further improve financial as well as prudential reporting in the future.

---

23 See figure 2.1.
In my view, this dissertation provides a solid starting point for such additional work. Hopefully it is not the end of academic research on the, generally, undocumented historical developments in the Dutch, European and global insurance industry.