1 Introduction, research goal and research questions

The history of the Dutch insurance group ‘N.V. Algemeene Maatschappij tot Exploitatie van Verzekeringmaatschappijen (A.M.E.V.)’, henceforth, the ‘AMEV’, which was a holding company and one of the founding fathers of Fortis, included two comments regarding its financial reporting practices in the 1920s.

The first comment described that the year 1925 was a special year for financial reporting purposes. It was the first year that the annual report of a Dutch life insurance company was structured in accordance with the directives of the Dutch insurance supervisor the ‘Verzekerskamer’ (henceforth, the ‘Insurance Chamber’). This authority required all such companies to submit, on an annual basis, extensive reporting of their financial figures, organised in 17 prudential returns. For me, this triggered the following question: if the 1925 requirements were considered to expand the reporting requirements significantly, even resulting in the appointment of a new auditor, how limited were the requirements before 1925 and what did they include?

The second comment referred to the acquisition in 1921 by the AMEV of the shares of the life insurer ‘Levensverzekering Bank Amsterdam’. In 1920, the AMEV had already acquired a significant interest in the life insurer ‘Levensverzekering Maatschappij “Utrecht”, Naamloze Vennootschap ter verzekering op het leven en tegen invaliditeit’ (henceforth, the ‘Utrecht’). The history stated that the asset related to those two acquisitions decreased rapidly because of the annual redemptions from the Utrecht and the profits made by both acquired companies. Already in 1923, this asset was fully written-off.

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2 In this dissertation, the words ‘insurance’ and ‘assurance’ are used as synonyms, although it should be noted that the word ‘assurance’ originally referred to life insurance only.
3 A list of translations of official Dutch terms and organisations is included in annex 1. When a new Dutch term is introduced in this dissertation, it is always mentioned first, followed by the English translation. Subsequently, only the English term is used.
4 Emphasis added.
5 van Gerwen and Verbeek (1995), p. 123. The new auditor was P. Klijnveld, one of the founding fathers of Klijnveld, Kraayenhof, & Co, which is the predecessor of KPMG Netherlands.
6 Ibid, p. 143.
7 Ibid, p. 101.
8 Ibid, p. 143.
When I compared this practice to both Dutch generally accepted accounting principles (henceforth, ‘Dutch GAAP’) and ‘International Financial Reporting Standards’ (henceforth, ‘IFRS’), it was, based on my long years of experience in accounting standard setting activities, hard to imagine that the accounting treatment applied by the AMEV in the early 1920s would be considered acceptable by today’s standards. This raised the question whether this was a practice applied by the AMEV only, by the insurance industry in anticipation of the new supervisory legislation on life insurance companies, or whether this was a generic application of Dutch or general financial reporting requirements before the introduction of the first full Dutch legislation on the preparation of financial statements in 1970.

Although it is not surprising that the past was different from the present, these two questions were, in fact, my personal motivation for undertaking this dissertation, which describes and analyses the results of a study on the financial and prudential reporting requirements and their impact on the reporting practices of Dutch insurance companies.

When analysing this topic and the differences in characteristics of insurance companies and other business organisations, it became clear that the main differentiating factor between insurance companies and those other organisations was in the existence of prudential supervision.

Apart from banks and similar financial institutions, insurance companies represented the only commercial industry that was subject to such supervision, i.e. the existence of specific laws, rules and regulations aimed at protecting the clients of an insurance company (policyholders and beneficiaries) against insolvency. Given this purpose of supervision, one could expect that, over time, supervisors have issued guidelines requiring insurance companies to put specific emphasis on applying prudence in preparing their financial reports. And this was exactly what happened, as is demonstrated by several of the ‘core principles’ published by the ‘International Association of Insurance Supervisors’ (henceforth, the ‘IAIS’). These principles confirmed the above objectives of prudential supervision, and the authority of the supervisor to set out the principles and norms regarding accounting and valuation techniques to be used: these should be consistent, realistic, and prudent, and included in specific legislation or guidelines.

On the other hand, insurance companies, as other business organisations, also had to deal with other stakeholders, such as (potential) investors, employees, tax authorities, and other creditors. To protect the interests of these stakeholders, the governments and the accounting standard setters have issued guidelines which, over time, put less emphasis on prudence in financial reporting.

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9 A list of abbreviations is included in annex 2.
10 In line with common use, in this dissertation the abbreviation ‘IFRS’ will be used for both an individual standard and for the whole set of standards. The same applies to ‘IAS’ as the abbreviation of ‘International Accounting Standard(s)’. IFRS was developed by the ‘International Accounting Standards Board’ (henceforth, the ‘IASB’), while IAS was created by the ‘International Accounting Standards Committee’ (henceforth, the ‘IASC’). Further information on the IASC and the IASB is included in sections 6.3.3 and 8.3.2.1, respectively.
11 By focusing on commercial institutions, pension funds are outside the scope of this statement.
12 In several countries and in different periods, insurance supervisors were also active in ‘conduct-of-business’ supervision, focusing on the relationship between insurers and their customers, for instance concerning premium rates or product transparency. Since this dissertation focuses on financial and prudential statements, these supervisory elements are outside the scope and are not specifically discussed.
13 IAIS (2004). For more information on this organisation and its pronouncements, see section 7.3.3.2.
Therefore, in practice, insurance companies were faced with a (potential) dilemma when preparing financial or prudential statements, as a result of the different interests of investors and other users on the one hand and prudential supervisors on the other hand, and this placed them in a different position than was the case for other business organisations. To identify and describe these two existing reporting environments, throughout this dissertation a distinction in terminology is made between:

- Reporting to investors and other users: for this category, I use ‘financial reporting’, ‘financial statements’, or ‘annual accounts’; and
- Reporting to the prudential supervisor: in this case, I use ‘prudential reporting’, ‘prudential statements’, or ‘prudential returns’.

However, it should be noted that this is a formal distinction. The choice of terminology gives no indication whatsoever on the level of prudence that was actually applied in preparing financial or prudential statements, or that, generally, reporting to prudential supervisors was on a more conservative basis than reporting to investors and other users. The issue of conservatism or prudence is discussed in the later chapters of this dissertation, when describing and analysing the financial and prudential reporting requirements, and comparing these to practice.

The dilemma of potentially conflicting reporting requirements was clearly explained by Hans Hoogervorst, IASB chairman elect at the time, at a conference in 2011. In his (maiden) speech, he observed that the interest of the investor would always remain the main focus of accounting standard setting, since, in his view, financial reporting was born out of the necessity to give investors adequate information on the company they were providing capital for.

Hoogervorst’s comments regarding the focus of accounting standard setters followed directly from the objective of the IASB. According to its ‘Preface to International Financial Reporting Standards’, this was “to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users make economic decisions.” In other words, capital market participants (i.e. investors) were the key users of annual accounts. This focus was further detailed in the ‘Framework for the preparation and presentation of financial statements’, which stated that “… some of these users may require, and have the power to obtain, information in addition to that contained in the financial statements. Many users, however, have to rely on the financial statements as their major source of financial information and such financial statements should, therefore, be prepared and presented with their needs in view.”

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14 Hoogervorst (2011).
16 Ibid, p. 29-54.
From these two quotes, it was clear that the 21st century focus of accounting standard setters, concerned with defining reporting requirements for financial statements, was (and is) on the investor, not on the needs of prudential supervisors. But it cannot be assumed upfront that this was always the case, as views may have developed over time. And it is also not clear whether the information needs of investors and insurance supervisors were conflicting during the whole period reviewed in this dissertation, although several commentators and organisations argued that this had been the case.\(^{17}\)

From my longstanding career as an auditor of and advisor to insurance companies and my activities for the Dutch auditors’ institute and the Dutch accounting standard setter since the 1980s, I was well aware of the fact that, for as long as I knew, the Dutch supervised insurers designated and published their prudential returns as their official financial statements: a ‘single-track reporting approach’. This occurred despite the (potential) conflict of interests between insurance supervisors and investors. This knowledge, combined with the preceding observations derived from authoritative literature issued by accounting standard setters and prudential supervisors,\(^ {18}\) set the scene for this dissertation, triggering questions such as:

- Has the focus of accounting standard setters always been on investors, or has this changed over the years?
- Has the conflict between serving the interest of investors and the needs of prudential supervisors always existed, has it been perceived as such, and, if so, what was the impact on the financial reporting practices of Dutch insurance companies? Or were the differences in the past less than they are today?
- Has there always been one commonly accepted meaning of the term ‘single-track reporting approach’, or has its meaning changed over time? And if the latter was the case, which types of approaches can be distinguished?
- Have there been periods where one of the two sets of reporting requirements prevailed over the other? If so, what was the impact, have things changed, and, if so, why?
- How was it, in practice, possible to serve the interest of investors as well as prudential supervisors under a single-track reporting approach? And was this approach required or a voluntary choice of the Dutch insurers?
- Was the (potential) conflict between the two reporting regimes resolved by the mandatory or voluntary disclosure of additional information?
- Did insurance supervisors make adjustments to the reported amounts to assess the financial position of insurers (in the form of so-called ‘prudential filters’),\(^ {19}\) even when the prudential requirements were leading?

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17 Examples described in subsequent chapters include Joosten and Agasi, Oosenbrug and myself in the Netherlands, the UK auditing profession, the US insurance supervisors and the US securities regulator, the European insurance supervisors and the European Commission, and Borio and Tsatsaronis of the ‘Bank of International Settlements’.

18 Next to accounting standards setters and prudential supervisors, also legislators played a role in defining the reporting requirements for the financial and prudential statements of insurers.

19 As is explained in section 8.3.2.2, 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 were eliminated and the measurement bases of assets and/or liabilities are adjusted to take into account the views of the prudential supervisor.
• Did the Dutch development of financial and prudential reporting follow a unique path or was it comparable to that in two other major countries, being the United Kingdom (henceforth, the ‘UK’) and the United States (henceforth, the ‘US’)?
• And, was there a difference in reporting practices of the holding companies of Dutch insurance groups and their Dutch insurance subsidiaries?

These questions are condensed into 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.

Subsequently, this research goal is converted into the following research questions:

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?

These questions are answered in this dissertation, which is based on a comprehensive survey of Dutch and other literature, domestic and foreign legislative developments and regulations, and the evolving reporting practices of Dutch insurers since the later 19th century.
The structure of the dissertation can be summarised in the following way:

- Chapter 2 presents the arguments for my research questions, the choices made and an overview of the most common meanings of the term single-track reporting approach;
- Chapter 3 answers the first research question and provides a brief description of the history of the selected companies AEGON, Fortis and ING;
- Chapters 4-8 present the findings of my research on questions two to five, divided into five time slots;
- Chapters 9 and 10 include the summary and conclusions, in English and in Dutch; and
- The last part includes a biography, references, and a detailed table of contents.

The main text is complemented by a number of annexes, providing statistics, background material, and details. The annexes also present full overviews of all amendments in the reporting requirements of legislators, supervisors and standard setters.  

20 See annexes 10, 11 and 12.