4 Period 1880-1922 – the supervisory vacuum

4.1 Introduction

This chapter presents the findings of my research, my analysis of the developments, and my summary and conclusions regarding the first of the five time slots included in this dissertation. It provides, as far as applicable (there were no relevant European or global organisations in the period) the answers to the following research questions:

1. 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?
2. 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?
3. 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?^1
4. 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 chapter starts with a description of the general developments impacting the Dutch insurance industry. This section focuses on the Dutch population and economy, the social security system and the tax system for companies, since they influenced the developments of the insurance industry in general. The underlying data are included in annex 8.

Subsequently, the chapter describes the financial reporting developments in general, since insurance companies, as a subset of the wider group of companies active in commercial business, were subject to these general developments, independent of any specific regime of prudential supervision. These general financial reporting developments in the Netherlands – or, at least, the debate about this – were influenced by, in particular, what happened in the UK but, in the period reviewed in this chapter, hardly by those in the US. For this reason, this part of the chapter starts with an overview of financial reporting developments in the UK, followed by those in the US. It ends with a description of the Dutch debates and developments. This shows that financial reporting requirements in the Netherlands were virtually absent, and all attempts to change this situation were halted as a result of ongoing differences in views between the government and Parliament.

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^1 As in explained in chapter 2, under this approach the insurers designated and published their prudential returns as their official financial statements.
In the UK, legislative requirements already existed in the mid-19th century, although it would take until the beginning of the 20th century that financial information was made available on a systematic basis not just to shareholders, but also to the public at large. In contrast, in the US legislative action was absent as well, but this did not prevent the introduction of publication requirements for listed companies by the stock exchanges (focusing on the interest of investors) and the evolution of consolidated financial statements.

The next part of the chapter provides information on the prudential reporting developments applicable to insurance companies. Again, the Dutch debates and developments were, in particular, influenced by those in the UK and, to a lesser extent, in the US. For this reason, these are presented first, before providing the description of the Dutch situation. The description explains that, compared to the financial reporting developments, the prudential reporting developments showed much more activities. The first initiatives occurred in the US, on state level, around the middle of the 19th century. The UK followed shortly after, based on a system called ‘freedom with publicity’, which was, generally, also the basis for a large number of initiatives and proposals in the Netherlands. Nevertheless, it would take a few significant financial disasters in the Dutch insurance industry before these developments resulted, in 1922, in the adoption of the first Dutch life insurance supervisory act. Non-life insurance supervision was hardly debated, and it would be only in the 1960s that a supervisory act would be adopted.2

In the penultimate section of the chapter, a description and analysis of the actual reporting practices of the companies reviewed in this dissertation is presented, linking these practices to the described financial and prudential reporting developments, the discussions on the reporting practices within the Dutch insurance industry, and the company developments presented in chapter 3. In describing the financial and prudential reporting developments, the focus is on the selected elements of financial reporting listed in chapter 2.3

The chapter ends with a summary and overview of conclusions, explaining that in all three countries the prudential reporting requirements, whether in existence or under development, dominated the actual reporting practices of insurance companies, and that they were much more extensive than the financial reporting requirements for companies within or outside the insurance industry. However, because of the lack of specific requirements in the Netherlands and the US, a type 1 single-track reporting approach was applied, under a legal option for the insurers, in the UK only.4

The descriptions of the financial and prudential reporting developments refer in several occasions to the (proposed) introduction of mandatory reporting formats. An overview of these formats is included in annex 9. A chronological overview of the relevant Dutch legislation and related documents in respect of both developments is presented in annex 10.

The main Dutch developments in the period are summarised in the figure presented next.

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2 See section 5.4.2.6.
3 See section 2.8.
4 As is explained in table 2.1 in section 2.5, under such an approach the prudential reporting requirements were leading in respect of the accounting principles to be applied, prudential filters did not exist, and additional information was not provided. For a description of such filters, see section 8.3.2.2.
4.2 General developments impacting the Dutch insurance industry

4.2.1 Introduction
The general developments impacting the Dutch insurance industry, and in respect of this industry, are extensively described in two publications, issued jointly by the Dutch ‘Verbond van Verzekeraars’ (henceforth, the ‘Association of Insurers’) and the NEHA. Most of the descriptions in this dissertation in respect of these developments are based on these books, complemented by other sources where relevant.

This section first presents some information on the Dutch society and economy in general, as far as relevant for this dissertation. Subsequently, it includes a description of the developments regarding the Dutch social security system, followed by an overview of the changes in the Dutch tax system for companies. The section ends with an overview of specific developments in the Dutch insurance industry.

5 Verbond/NEHA (1998) and Verbond/NEHA (2000). The first publication was written by a number of authors, who, where applicable, are individually mentioned. In the reference list, this book is always described as Verbond/NEHA (1998).
4.2.2 Developments in the Dutch society and economy

In the period 1500-1800, the Netherlands had 1.5-2.0 million inhabitants. It had a high degree of prosperity, urbanisation and immigration. However, the French occupation in 1795 brought an end to the important economic and financial position of the Netherlands. Although the unification of the Netherlands and Belgium under King Willem I seemed to bring new opportunities, the outburst of the Belgian Revolt in 1830, resulting in the separation of Belgium in 1839, caused this expectation to vanish rapidly. The ownership of colonies could also not prevent a long period of stagnation in the first half of the 19th century and other countries passed the Netherlands in prosperity: the ‘Gross National Product’ (henceforth, the ‘GNP’) per capita hardly increased between 1815 and 1860. Yet the second part of this century slowly brought a recovery, partly as a result of political and economic innovations which led to the formation of an effective and a united nation, and the development of new businesses.

In the first half of the 19th century, the Netherlands could be classified as a pre-industrial society. Agriculture and trade were the most important economic sectors. Compared to other countries, the average income per head was high, but the differences between rich and poor were large. Between 1815 and 1890, the population increased from 2.2 million to 4.5 million. This growth, combined with increased prosperity (GNP per capita started to increase gradually, in particular after 1860), and also with higher life expectancies, created an important impulse for the life insurance industry. After 1890, the population continued to grow, to over 7 million inhabitants in the early 1920s. At the same time, the economy improved again, although with ups and downs: GNP per capita increased from NLG 287 in 1900 to NLG 784 in 1925. Additionally, important institutional innovations occurred, such as the introduction of general elections, the establishment of trade unions, and the adoption of the first social security legislation. This was also the starting period of economic growth of a number of large insurance companies.

Next to GNP, the movements in the long-term and short-term interest rates are also important indicators of economic development. Because of their relationship with the discount rate used to determine the life insurance provisions, these rates are presented near the end of this chapter, when describing the accounting treatment of the technical provisions by the companies reviewed in this dissertation.

4.2.3 Developments in the Dutch social security system

As is noted in chapter 2, the developments in the Dutch social security system created, but also limited business opportunities for insurers. The development of this system was described by Noordam. He noted that the first discussions in Parliament on mandatory social security started in the 1880s, as part of a general debate on the economic and social situation of the working population at the time. This situation was bad, despite some voluntary schemes established by several employers.

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6 All statistics in this section are based on table A8.1.
10 See section 2.4.
In 1890, only about 10% of the working population fell under some kind of social security scheme, established by (mutual) health insurance organisations, funeral insurance societies, trade union unemployment insurance schemes, and companies. Social security appeared on the political agenda for the first time in 1891, when measures were announced to provide insurance coverage to old or disabled employees. In the report of an advisory committee issued in 1894, recommendations were made to introduce legislation in the areas of accident and old age insurance for employees. After a report from another advisory committee in 1898, a bill for an act to arrange accident insurance was submitted to Parliament. This was the start of a number of rapid developments in the Dutch social security system in the first decades of the 20th century, as is briefly described next.

**The accident act 1901 and the accident act 1921**

The first act in the field of social security was the ‘Ongevallenwet 1901’ (henceforth, the ‘accident act 1901’).\(^{12}\) It provided coverage to employees in a number of specified industries, giving certain monetary benefits in case of disability or death as a result of an accident at work. Financing was arranged by mandatory contributions (premiums) by the employers in those industries, where the rates varied by industry. The premiums were determined and collected and the benefits paid by the ‘Rijksverzekeringsbank’ (henceforth, the ‘Government insurance bank’). Companies were allowed to carry the risks of this act themselves, but to secure payment, these companies had to deposit an amount at the Government insurance bank as collateral. Companies were also allowed to transfer the risk to a joint stock company or society with legal status (including mutual insurance companies), in which case this risk carrier had to provide the required deposit. The act was intended to be effective as of 1 June 1901.\(^{13}\) However, it would not be until 1903 before the act was actually put into operation, since it was first necessary to determine which court procedures were applicable in case of disputes.\(^{14}\) This was resolved during 1902.

The act guaranteed benefits to about half of all Dutch employees.\(^{15}\) Noordam noted that, although the execution of the act was carried out by the Government insurance bank during the first 20 years, a large number of employers used the exemption in the act, representing around 70% of the total amount of wages of the insured companies.\(^{16}\) The accident act 1901 was amended several times, but in particular in 1921, when employers in other industries were given the possibility to conclude, on a voluntary basis, an insurance contract with the Government insurance bank.\(^{17}\) Henceforth, from that moment onwards, the act was referred to as the ‘accident act 1921’.

**The act on the Boards of Labour, the sickness benefits act and the disablement benefits act**

The next step in the development of a social security system in the Netherlands was taken in 1913, with the adoption of three related acts.

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\(^{12}\) Minister van Justitie (1901a), Staatsblad 1901, nr. 1.

\(^{13}\) Minister van Justitie (1901b), Staatsblad 1901, nr. 105.


\(^{17}\) Minister van Justitie (1921b), Staatsblad 1921, nr. 700.
The first was the ‘Radenwet’ (henceforth, the ‘act on the Boards of Labour’), which established a number of regional ‘Raden van Arbeid’ (henceforth, the ‘Boards of Labour’), whose members were equally divided between employers and employees. These institutions were responsible for executing the sickness benefits act, described next.

The second act, the ‘Ziektewet’ (henceforth, the ‘sickness benefits act’), granted employees (if certain conditions were met and up to a maximum amount) sickness benefits, paid out of funds which were specifically created for this purpose and managed by the Boards of Labour. The funds were financed by premiums, mandatorily paid by the employers which, in turn, could withhold half of such premiums from the employee’s wages. In addition to this mandatory system, all employees who were not insured under the accident act 1901 could apply for voluntary insurance, in which case they paid the full premiums themselves. For several reasons, the act was not made effective until 1929, after considerable changes. This is described in the next chapter.

The third act, issued in 1913, was the ‘Invaliditeitswet’ (henceforth, the ‘disablement benefits act’). This was again an act focusing on employees, granting them (if certain conditions were met) benefits in case of temporary or permanent disability and pensions if they reached the age of 70. Furthermore, in case of death during a period of disability, minor children of the diseased would receive orphanage benefits. The act was executed by the Boards of Labour, which paid the benefits from dedicated funds, financed by premiums contributed by the employers. As in case of the sickness benefits act, employers could withhold part of the premiums from the employee’s wages. Next to this system of mandatory insurance, voluntary insurance was created as a possibility for non-admitted employees.

The old age pensions act 1919

The last social security act adopted in the period described in this chapter, was the ‘Ouderdomswet’ (henceforth, the ‘old age pensions act’) 1919. This act enabled employees, under certain conditions, to conclude, on a voluntary basis, an insurance agreement covering old age benefits with the Government insurance bank. Additionally, the government promised to contribute, for a period of 30 years, an annual amount to cover the payments of old age benefits to all Dutch citizens which had reached, at the effective date, the age of 65 years and were not entitled to a benefit under the disability act. In contrast to the social security acts described earlier in this section, this act limited rather than expanded the business opportunities for private insurance companies because of the monopoly granted to the Government insurance bank.

4.2.4 Developments in the Dutch tax system for companies

During the period described in this chapter, the Dutch tax system applicable to companies changed several times. Until 1 May 1894, all joint stock companies (including insurance companies) were subject to the ‘Wet houdende eene nieuwe ordonnantie op het regt van patent’ (henceforth, the ‘act including a new Decree on the right of patents’), adopted in 1819.

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18 Minister van Justitie (1913a), Staatsblad 1913, nr. 203.
19 Minister van Justitie (1913b), Staatsblad 1913, nr. 204.
20 See section 5.2.3.
21 Minister van Justitie (1913c), Staatsblad 1913, nr. 205.
22 Minister van Justitie (1919), Staatsblad 1919, nr. 628.
23 Secretaris van Staat (1819), Staatsblad 1819, nr. 34.
This act was applicable to all who carried on a profession or a company. For joint stock companies, the tax rate was 2% of all distributions, excluding repayment, of capital. Mutual insurance companies were not in the scope of this act, nor were they subject to any other similar tax regime.

This changed in 1893, when the ‘Wet tot heffing eener belasting op bedrijfs- en andere inkomsten’ (henceforth, the ‘act to tax business and other income’) was adopted. The act was applicable, as of 1 May 1894, to all joint stock companies and mutual insurance companies, and repealed the tax section of the previous act. The act introduced a charge of 2.5% of all distributions to shareholders and other profit-sharing participants. However, the members of a management or supervisory board and the staff of a company were excluded, as well as policyholders receiving benefits in relation to insurance contracts.

Subsequently, in 1914 the 1893 act was repealed replaced by the ‘Wet tot heffing eener inkomstenbelasting 1914’ (henceforth, the ‘act on the income tax 1914’). The scope was unchanged, and the tax also focused on distributions to shareholders and other profit-sharing participants. Again, board members and staff of a company were excluded, but increases of insured capital of policyholders were included to the amount they were not covered by received premiums. The tax rate increased to 5%.

In 1918, the introduction of the ‘Wet op de dividend- en tantièmebelasting 1917’ (henceforth, the ‘act on the dividend and bonus tax 1917’) changed the tax system for companies again. The explanatory memorandum to the bill of this act noted that the proposals included both the separation of the provisions regarding taxation for companies from the act on the income tax 1914, as well as an expansion of the tax basis. Under the new act, tax was also levied on bonuses to the board members and the staff of a company. The system was applicable to all companies, including insurance companies. The tax rate was maintained at 5%.

4.2.5 Development of the Dutch insurance industry
During the period 1500-1800, commercial insurance was generally limited to non-life insurance business, which mainly concerned ships and commercial property such as mills. The market was for the major part in the hands of private underwriters, active on the Dutch insurance exchanges of Amsterdam, Rotterdam, and Middelburg. They were merchants themselves and used their special expertise to insure hull and cargo risks of ships, as well as the risk of fire in large objects. Additionally, there were mutual insurance companies for commercial property fire risk (in particular for mills), and for hull risks of fishing ships. There was only a limited role for government-provided insurance arrangements and commercial non-life insurance companies.

In this environment, government involvement with non-life insurance business was mainly limited to marine insurance. Regulations were issued locally and focused on the contents of insurance policies, and on the role and remuneration of insurance brokers.
However, as the result of the decline in the economy around 1800, marine insurance business decreased in importance and non-life insurers started to expand in river hull insurance and fire insurance business. For these two branches, no government regulations existed.

The first commercial fire insurance companies appeared in the second half of the 18th century, often combining these activities with marine insurance business. 31 But the real growth started in the next century, which showed the establishment of about 1,500 non-life insurance companies, in particular in the form of mutual insurance companies active in the field of cattle insurance business, a development which continued in the first decades of the 20th century. 32 However, the 19th century also witnessed the establishment of over 200 joint stock companies carrying on marine insurance business. This development was explained by Gales and Langenhuyzen, who noted that the insurance market was stimulated by the increasing purchasing power. 33 Additionally, the increased industrialisation and the growing trade and services industry in the second half of the 19th century, combined with increasing employment and urbanisation, increased the risks, for instance, to be involved in an accident, thus creating a desire to insure such risks. The number of insurable objects and its value also augmented: the new factories, warehouses and transportation equipment were generally insured. As a result, at the end of the 19th century a large number of insurance products were offered. However, at that time non-life insurers focused in particular on ‘physical’ risks (i.e. the risks related to goods); ‘personal’ risks (i.e. the risks related to humans) were the activities of life insurers. Regarding the size of the non-life insurance market, no statistics were available until the introduction of the first prudential reporting requirements for these insurers under the non-life insurance business act in 1964. 34

Life insurance business developments started in the 18th century, bringing a variety of mutual insurance companies for widow’s insurance, old age provisions, and funeral expenses. In several cases, these companies requested, on a voluntary basis, government approval of their regulations. In this process, an assessment was made on the compatibility with existing legislation. However, a large number of companies operated without such an approval. 35 These companies were voluntary funds, not related to a specific profession. There were at least over 300 not-profession-oriented funeral funds before 1800, and around 50 funeral funds which also provided widow’s insurance. 36

Additional security related to a profession was provided by the guilds, until they were legally prohibited in 1798 and their role was taken over by other organisations, including funeral funds and mutual life and health insurance companies. 37 Around 1500, there were almost 400 guilds in the Netherlands, a number that increased to about 1,300 at the end of the 17th century. They operated mutual assistance companies, known as ‘bossen’, ‘bussen’, or ‘beurzen’, active within a certain profession or local community. 38 These companies were active in the following areas: funeral insurance (in kind or by reimbursement of expenses), sick pay insurance, old age insurance, widow’s insurance, unemployment insurance, and support to the poor.

32 See table A8.15.
34 See section 5.4.2.6.
Overviews of the different types of mutual insurance companies and funds active in the area of life insurance were collected by van Genabeek.\textsuperscript{39} He calculated that, around 1890, in total more than 1,000 of such organisations existed, of which sick pay insurance, health insurance, and death insurance were the most important classes of business. About 80\% of this number concerned funeral funds, with almost 2.4 million members on a total population of about 4.5 million.

A large number of these funds were established in the second half of the 19th century.\textsuperscript{40} Often, this occurred in the combination of a funeral fund and a health insurance fund.\textsuperscript{41} In the beginning of this period, a number of successful funeral funds had requested and obtained Royal approval.\textsuperscript{42} With such an approval, they achieved the status of a life insurer, although their main activities remained ‘volksverzekeringen’ (industrial assurance business), i.e. their focus continued to be insuring small amounts. Thus, there was some convergence between funeral business and life insurance business at the time.\textsuperscript{43} Most funds applied a level premium system. However, in comparison with life insurance companies, premium differentiation based on age was usually very limited: most of the premium levels of funeral funds were the same.\textsuperscript{44} After the 1880s, the number and market share of the funeral funds started to fall, when they were completely overtaken by the modern life insurance companies, focusing on the insurance of large(r) amounts instead of on industrial assurance business.\textsuperscript{45} The total number of Dutch organisations active in life insurance business (including funeral funds) decreased from 171 in 1900 to 112 in 1922, which was mainly explained by the decrease in the number of funeral funds from 87 to 26.\textsuperscript{46}

Before 1880, the business of life insurance of large amounts was mainly carried out by four companies, which had not been able to grow considerably, since such risks were mainly insured with foreign companies. None of these four were direct predecessors of AEGON, Fortis, or ING. On the other hand, companies focusing on industrial assurance business and funeral funds did not face foreign competition and had developed solid market positions. This changed drastically after 1880.\textsuperscript{47} Since that year, new life insurance companies were created annually. In 1908, there were, on a population of about five million, about 100 domestic companies and 50 foreign companies active in the Dutch life insurance market, as well as a large number of funeral funds.\textsuperscript{48} However, within this market, the level of concentration was high.

Gales and van Gerwen described that, in 1913, the ten largest companies, measured in insured capital, had a market share of over 60\%; the share of the largest five was 44\%.\textsuperscript{49}

\begin{thebibliography}{99}
\bibitem{39} See tables A8.3 to A8.10 and A8.14.
\bibitem{40} See table A8.2.
\bibitem{41} Bollerman and Broenink (1983), p. 13.
\bibitem{42} This system of Royal approval to carry out life insurance business is described later in this chapter, in the section dealing with the Dutch prudential reporting developments.
\bibitem{43} van der Valk (1998b), p. 264-265.
\bibitem{44} Bollerman and Broenink (1983), p. 52.
\bibitem{45} ibid, p. 1.
\bibitem{46} See table A8.11.
\bibitem{47} Venhuizen (1908), p. 5-6. This was caused by a ruling of the Supreme Court, described later in this chapter, in the section dealing with the Dutch prudential reporting developments.
\bibitem{49} Gales and van Gerwen (1988), p. 22.
\end{thebibliography}
Regarding the development of insurance groups, Gales and Langenhuyzen noted that life insurance and non-life insurance businesses were completely separate segments in the 19th century.\textsuperscript{50} This changed after 1900, when companies started to offer both kinds of insurance products.\textsuperscript{51} And this was the start of the growth of insurance groups in the 20th century.

4.2.6 Summary and conclusions
Based on the overview of the general developments impacting the insurance industry, the following conclusions can be drawn:

- Before the 19th century, the Dutch society showed a rather high level of prosperity, in which social security (including life and funeral insurance) was provided by mutual insurance companies and funeral funds, as successors of the guilds. Non-life insurance business was generally limited to marine and fire insurance;
- During the 19th century, the Dutch population started to grow, in particular in the second half. The economy improved and GNP per capita increased. Combined with higher life expectancies, this created growth opportunities for life insurance companies. As a result, the period 1850-1880 witnessed the establishment of a large number of funeral funds. Thereafter, however, these funds were completely overtaken by modern life insurance companies, the number of which increased sharply. The higher level of wealth also triggered the incorporation of a number of non-life insurance companies and an expansion of the number of products in this market; and
- Between 1900 and the early 1920s, the population grew again considerably, from 4.5 million to over 7 million. The economy improved further, although with ups and downs. These years also showed the first steps in the development of a Dutch social security system initiated by the government, with the introduction of employee benefits covering accidents, sickness, disablement, and old age pensions. These developments created market opportunities, but also risks, for private insurance companies, leading to the establishment of the first insurance groups combining life and non-life insurance business in the beginning of the 20th century.

\textsuperscript{50} Gales and Langenhuyzen (1998b), p. 669.
\textsuperscript{51} This group included the Eerste Nederlandsche (see section 3.2.3) and the Nederlanden van 1845 (see section 3.4.2).
4.3 Financial reporting developments

4.3.1 Financial reporting developments in the UK

4.3.1.1 Introduction
This section presents the UK financial reporting developments until 1922. As is described later in this chapter in the section on the Dutch financial reporting developments, the UK companies acts were an important source of input for the discussions in the Netherlands. The two most important acts in the period were the companies act of 1862, which for the first time prescribed a model balance sheet, and the companies acts of 1907 and 1908, which abolished this model but did list the items to be included in the balance sheet of banks and insurance companies. Furthermore, they introduced a requirement to file the balance sheet at the ‘Board of Trade’. All companies acts focused on the protection of the interest of investors and considered them to be the primary users of financial statements.\(^{52}\)

However, the 1907/1908 acts exempted UK life insurance companies from these requirements, if they prepared and filed at the Board of Trade their prudential statements in accordance with the applicable prudential requirements, described later in this chapter when presenting the UK prudential reporting developments. In such a case, life insurers could designate and publish these prudential statements as the official financial statements. In other words, they were legally allowed (but not required) to adopt a single-track reporting approach in which the prudential reporting requirements were leading. No additional information was required, and prudential filters were not applied. In other words, they could adopt a type 1 single-track reporting approach.

Next, the section presents the evolution of consolidated accounts and goodwill accounting in the UK, which would play a major role in UK accounting in the years to follow. It continues with a discussion of the financial reporting practices of UK insurers before and after the introduction of the ‘Life assurance companies act 1870’, described later in this chapter when discussing the UK prudential reporting developments.\(^{53}\) The section ends with a summary and overview of conclusions.

4.3.1.2 The companies act of 1862
The ‘Companies act 1862’ was adopted on 7 August 1862.\(^{54}\) It was the temporary conclusion of a large number of legislative developments, which started in the early 19th century after the collapse of the ‘South Sea Company’.\(^{55}\) This was a company established by ‘Act of Parliament’ in 1710 to trade with South American states. The company had ambitious plans but its trading activities never really flourished. As a result, it looked elsewhere for business, and, with the approval of the ‘House of Commons’, made an offer to take over the national debt for GBP 7.5 million.

\(^{52}\) For my definition of investors, see section 2.7.

\(^{53}\) In former UK legislation, a distinction was made between ‘assurance’ companies, which carried out life insurance business, and ‘insurance’ companies, which were non-life (or ‘general’) insurance companies. In this dissertation, the distinction is ignored for simplicity reasons, and consistent use is made of the term ‘insurance’, unless reference is made to the names of specific acts. This approach is in line with the explanations provided by van Barneveld (1972), who defined ‘insurance’ as “an event that can occur, but is not necessary to occur”, while ‘assurance’ was “an event certain to occur, like death”. However, he admitted that, in practice, this distinction was not strictly maintained, not even in the names of companies.

\(^{54}\) The act was reproduced by Pulbrook (1887). The description that follows is based on this publication.

Subsequently, the South Sea Company shares were the subject of immense speculation. The price spiralled and then collapsed. Finally, the bubble burst, thousands of investors were totally ruined and there was a public outcry. In response to these events, the government was forced to act in order to restore confidence and passed the ‘Royal exchange and London assurance corporation act’ in 1719, popularly known as the ‘bubble act’. This prohibited the formation of joint stock companies unless authorised by either a ‘Royal charter’ or an act of Parliament; obtaining one of these was an extremely expensive and time consuming process, and a practical proposition for only the very large enterprises.

In response to the increasing number of companies engaged in fire and life insurance business in the early 19th century, the restrictive provisions of the bubble act were repealed by the ‘Chartered companies act 1825’. After ineffective attempts to improve legislation in 1834 and 1837, the government appointed the ‘Gladstone committee’ in 1841 to discover why joint stock companies were regularly the subject of deception and fraud, and to make recommendations. This committee was a so-called ‘select committee’, a company law amendment committee to advice on desirable changes in law. This device was used on numerous occasions up to the 1960s. The committee was usually named after its chair. It was, as Mueller described, a component of the method used to formulate a new companies act in the UK. Generally, a committee was formed to bring recommendations for a new act. After hearings and deliberations, the committee rendered a report which normally became the basis for drafting an appropriate bill. In due course, this resulted in a new companies act, including only the amendments to existing legislation. Shortly thereafter, all existing acts were consolidated into a new one.

The recommendations of the Gladstone committee, issued in 1844, resulted in the adoption of the ‘Joint stock companies act 1844’, which was the first act to permit the incorporation of companies by registration with the ‘Registrar of companies’. The act contained a requirement to keep “proper books of accounts” and to balance these periodically. A “full and fair” balance sheet had to be prepared and presented to each meeting of shareholders. Auditors had to be appointed by the shareholders and should report on the balance sheet, which was then required to be filed with the Registrar. However, according to Napier, the act was ineffective in achieving its goal of a full and fair balance sheet because it did not specify the detailed contents of the balance sheet, and made no stipulations as to accounting policies to be followed. The 1844 act was followed by the ‘Companies clauses consolidation act 1845’, which brought together all the accounting provisions of previous acts, but it did not introduce any new requirements. It was passed to avoid the need for companies to repeat the numerous standard provisions usually contained in the private acts of Parliament.

In 1856, the government adopted the ‘Joint stock companies act 1856’, which repealed the compulsory accounting, auditing and disclosure requirements of the 1844 act, thus permitting companies to disclose no financial information to shareholders and others.

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56 Ibid, p. 100.  
60 UK Government (1845).  
The 1856 act included a model set of articles of association, which individual companies were free to adopt or modify as they wished. The model contained detailed requirements for the preparation of annual financial statements and a suggested format for the balance sheet. The auditors had to report on whether the balance sheet was a “full and fair balance sheet, containing the particulars required, and properly drawn up as to exhibit a true and correct view of the state of the company’s affairs.” However, since the introduction from the mid-1850s of shares with smaller nominal values led to an increasing separation of ownership and control, the pressure for increased public disclosure of financial information continued, which resulted in the 1862 companies act.

This act stated that no company with more than 20 members could be formed to carry on business, unless it was registered under the act, formed in pursuance of an act of Parliament, or granted by the King. The act introduced a model for the articles of association in table A of the first schedule of the act. A company could adopt all or any of these regulations. For a company limited by shares and registered after the commencement of the act, these regulations applied, unless the articles of association excluded or modified them. The memorandum and articles of association (if any) should be delivered to the ‘Registrar of joint stock companies’.

Amongst others, table A included requirements regarding dividends and the preparation (but not the publication) of a balance sheet and a profit and loss account. Dividends could only be paid out of the profits arising from the business of the company. But the directors could first set aside out of the profits of the company such sums as they considered proper as a reserve for meeting contingencies, for equalising dividends, for repairing or maintaining the works connected with the business of the company, or any part thereof, and the directors could invest the reserve in such securities as they wished. Regarding the balance sheet and the profit and loss account, table A stated:

- At least once every year the directors of the company should present in the general meeting of shareholders a statement of the income and expenditure for the past year. It should show the amount of gross income, distinguishing the several sources from which it had been derived, and the amount of gross expenditure, distinguishing the expense of the establishment, salaries, and other matters. Every item of expenditure fairly chargeable against the year’s income should be taken into account; and
- A balance sheet should be prepared annually, in a specific format annexed to the table, and also presented at this meeting. Regarding the assets, the model identified three classes (land and buildings, debtors, and cash and investments), all split into specific subcategories. For the liabilities, certain details had to be provided regarding the share capital and the liabilities. Furthermore, separate line items were included for the reserve fund to meet contingencies, and for the profit or loss for the year. Finally, the balance sheet should show any off-balance sheet liabilities.

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62 Since this format was only suggested, it is not included in the overview of mandatory reporting formats presented in annex 9.
63 Napier (1993).
64 Maltby (1998). She noted that “84% of the shares of companies formed between 1856 and 1865 were valued at between GBP 5 and GBP 1000.”
65 The format of the balance sheet is included in table A9.1. No format was included for the profit and loss account. For banks and insurance companies, slightly amended formats were required.
According to Nigam, the 1862 act included hardly any provisions for the preparation of systematic periodic accounts.\textsuperscript{66} The balance sheet model in table A had no statutory force behind it and was, therefore, usually not followed by the companies. In contrast, the model articles of association were adopted by many companies in greater or less detail.\textsuperscript{67} However, the accounts were seen as a private matter between shareholders and directors, and there was no requirement for wider publicity. This situation tended to modify itself somewhat in relation to companies quoted on the various stock exchanges, which, as is described hereafter, had issued some rules requiring the publication of annual balance sheets. But it was in principle open to companies to publish nothing. Moreover, there were no requirements relating to the accounting principles to be adopted in the financial statements. But while this applied to general companies, special laws for companies in which there might be considered to be a wider public interest (such as insurance companies) emerged, and by 1880 the principle of compulsory publication of audited accounts in uniform style had been accepted in such contexts. For insurance companies, these requirements were included in the ‘Life assurance act 1870’, part of the UK prudential reporting requirements and described later in this chapter. As a result, life insurers had to publish their financial statements at the time that this was not (yet) a generic requirement for other companies under the prevailing companies act.

Between 1863 and 1899, several changes were made to the 1862 companies act, which were not relevant for this dissertation. Another change was made at the start of the next century, with the adoption of the companies act of 1900.\textsuperscript{68} It included, for the first time, specific requirements on the contents on a prospectus. However, as Napier noted, there was still no statutory requirement relating to the form and content of the balance sheet.\textsuperscript{69} It was also not required to disclose the valuation basis of assets and depreciation policies, although the 1895 select committee, established to advice on what would be the 1900 companies act, had suggested this.\textsuperscript{70}

In contrast to the situation in the US (described later in this chapter), initially there appeared to be little activity in the area of financial reporting by the UK stock exchanges. The only initiatives observed were reported by Edwards, who noted that the last quarter of the 19\textsuperscript{th} century saw the ‘London Stock Exchange’ beginning to impose a degree of control over the level of accountability required from listed companies.\textsuperscript{71} A requirement for companies to submit two copies of their accounts was introduced, probably in 1881. At the turn of the century, the stock exchange instructed listed companies to circulate a printed balance sheet and directors’ report to members seven days before the general meeting. Also, there was little action deployed by the auditing profession, although the ‘Institute of Chartered Accountants in England and Wales’ (henceforth, the ‘ICAEW’) had already been established in 1872.\textsuperscript{72}

\begin{itemize}
\item[66] Nigam (1955).
\item[67] Napier (1993).
\item[68] Godden and Hutton (1901).
\item[69] Napier (1993).
\item[70] Aranya (1974).
\item[72] Aranya (1974).
\end{itemize}
4.3.1.3 The companies acts of 1907 and 1908

The next legislative step regarding financial reporting requirements was made in 1906, when the ‘Loreburn committee’ was appointed to advice what amendments were necessary in the acts relating to joint stock companies. The committee felt that companies should be required to submit a copy of their balance sheet to the Board of Trade. However, it did not propose the inclusion of a statement of profit and loss. Its report was presented in June 1906 and the ‘Companies act 1907’ was based to a very large extent upon the recommendations by that committee. It introduced the concept of ‘private’ vs. ‘public’ companies, stipulating that a public company which did not issue a prospectus in respect of its formation should not allot any shares or debentures until it had filed with the Registrar a “statement in lieu of prospectus” in a prescribed format. Furthermore, it carried forward the requirements adopted in 1900 on the information in a prospectus, issued at the formation of a company. Such requirements were not applicable to private companies.

In other words, companies which offered their shares to the public were subject to stricter reporting requirements than those who did not.

The companies act of 1907 was followed by the ‘Companies (consolidation) act 1908’, adopted on 21 December 1908. It repealed all previous companies acts issued since 1862, however, maintaining almost all of their provisions. The 1908 act clarified and amended, but did not fundamentally change, the model articles of association, included in table A of the first schedule to the act, in respect of dividends and reporting requirements. In contrast to the 1862 act, the 1908 act did not include any specific balance sheet format. It only prescribed a very limited number of balance sheet items for banks and insurance companies. Next to information about the amount of authorised, issued, and paid-in share capital, the items concerned four categories of assets (government securities, bill of exchange and promissory notes, cash at the bankers, and other securities) and five categories of liabilities (on judgment, on speciality, on notes or bills, on simple contracts, and on estimated liabilities). These requirements were, however, not applicable to a life insurance company or any other insurance company to which the provisions of the ‘Life assurance companies acts 1870 to 1872’ (described later in this chapter as part of the UK prudential reporting developments) applied, if the company complied with those provisions. In other words, the 1908 act allowed (but not required) insurance companies to designate and publish their prudential statements as the financial statements, and it effectively refrained from giving other reporting requirements if the provisions of the prudential acts were followed. In other words, the prudential reporting requirements were leading, and no additional information was required. Prudential filters were not applied. In summary, a continuation of a type 1 single-track reporting approach.

According to Edwards, under the 1908 act the articles of association of companies frequently left out the requirement to distinguish the several sources from which income was derived and, even where this provision was retained, the published accounts normally distinguished only gross trading profits from transfer fees.

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73 Hemmant and Jordan (1907), p. v-vii.
74 Napier (1993) explained that private companies were defined as those that had 50 members or fewer, had restricted the right of transferring their shares, and were not allowed to make any public offering of their securities.
75 UK Government (1908).
Edwards noted that it was not until 1981 that companies were legally required to publish a profit and loss account containing the level of detail implied by the general requirements in the 1862 act.\(^77\) Furthermore, the standard provisions dealing with the content of the balance sheet were often modified or omitted, and the internal regulations usually empowered the directors simply to draw up the statement “in such form as they ... shall from time to time determine”. Edwards also noted that some company directors even took advantage of the opportunity, provided by the 1908 act, to omit profit figures from the balance sheet filed with the Board of Trade.\(^78\) The document, as a result, did not balance. Napier was even more critical: he considered the 1908 act to be badly drafted, making it possible for a public company to file a balance sheet that was different from that presented to shareholders at the annual general meeting.\(^79\) Furthermore, in many cases, the numbers reported had been manipulated through the use of secret reserves.

Regarding such reserves, Edwards explained that there had always been support in the UK for the policy of building up reserves on the grounds that it reflected a prudent financial policy which was likely to improve long-term financial stability.\(^80\) Profits set aside in good years could be drawn upon when trading conditions became more difficult. The controversy associated with such transfers to and from secret reserves was whether or not they should be disclosed. The classic method of creating a secret reserve was to make an undisclosed transfer to an account which did not appear on the face of the balance sheet. This might be because it was submerged under a vague heading such as sundry creditors or because the reserve together with an equivalent of cash was simply omitted from the balance sheet. Other ways of creating the same effect were to overstate a liability, to understate fixed assets by making excessive depreciation charges, or to reduce stock well below cost. Up to the 1920s, the widespread popularity of secret reserves could possibly be attributed to the fact that their existence guaranteed a balance sheet which understated the financial strength of the company. This state of affairs was considered satisfactory from the viewpoint of both the creditor and the long-term investor. The position of the short-term speculator was less well served, but it was felt that he could be left to look after himself.

After the 1908 act, only minor amendments were made to the companies acts until 1928, when a substantially revised act was adopted: this is described in the next chapter.\(^81\)

### 4.3.1.4 The evolution of consolidated accounts and goodwill accounting

As is described in the subsequent chapters, the issue of consolidated accounts was one of the main differences between financial and prudential reporting. In financial reporting, the preparation of consolidated accounts became more and more important, while for prudential reporting purposes consolidation of insurance subsidiaries was, generally, prohibited, since prudential supervision focused on an individual insurance company. Whether or not this created a problem for insurance companies adopting a single-track reporting approach is also discussed in the next chapters. Because of this difference between the two reporting regimes, it is important to review and describe the evolution of consolidated accounts and, as a related issue, the treatment of goodwill.

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\(^77\) This was caused by the implementation of the fourth EU directive, as is described in section 6.4.2.2.

\(^78\) Edwards (1989), p. 204.

\(^79\) Napier (1993).


\(^81\) See section 5.3.2.2.
A later section in this chapter presents the development of consolidated accounts in the US, where it started already at the end of the 19th century. In the UK, consolidation came later than in the US: Nobes and Parker explained that UK managements were opposed to consolidated accounts, particularly because there would be less room for secret reserves and income-smoothing. In the UK, consolidated financial statements were seen as supplements to parent company balance sheets, whereas they were seen as substitutes in the US. In the UK, consolidation grew up as a device to show investments in more detail than at cost, particularly as private subsidiaries (even of public groups) were exempt from publication requirements. Edwards explained that, at the beginning of the 20th century, investments in subsidiaries were recorded at cost and profits were reflected in the holding company’s accounts only when a dividend transfer was made. Even then it was unusual for the amount of the dividend to be disclosed separately. Legal entity-based financial reports therefore provided ample opportunity for profit-smoothing. When the reported results of the holding company were buoyant, profits were ‘stored up’ in the books of the subsidiary and, at the same time, provisions might be made for losses incurred by another member of the group. In the reverse situation, large dividend transfers could be made by the subsidiary to boost the reported results of the holding company. Somewhat later in the 20th century, UK companies started to use the equity method for the purposes of including subsidiaries in the financial statements of investors as an alternative to consolidation. This method was more common than full consolidation in the 1910s and was still used in the 1920s.

Before 1922, this approach to financial reporting did not meet a lot of criticism and there was not much response from practice on this issue, although Edwards noted that he was familiar with an early British example of a consolidated statement, published by the directors of the ‘Pearson & Knowles Coal and Iron Co. Ltd’ in 1910. But he admitted that a better known pioneer of group accounting was ‘Nobel Industries’: a statement displaying a summary of the group’s assets and liabilities was included in the 1922 chairman’s report. Perhaps this was the prelude to the wave of consolidation accounting, initiated by Garnsey in December 1922, when he presented a paper entitled ‘Holding companies and their published accounts’, subsequently published in The Accountant. This was an important landmark in the development of group accounting in the UK. Because he was a partner in a leading firm of chartered accountants, he could not be ignored. This paper and the subsequent events are described in the next chapter.

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84 Nobes (2002).
87 See section 5.3.2.3.
Closely related to the discussion on accounting for subsidiaries was the debate on accounting for
goodwill, in particular its amortisation or impairment. It was already discussed in 1897, when it was
argued that goodwill was a fixed, not a current asset.\(^\text{88}\) It was, therefore, not necessary to value it at
its actual realisable value at the date of the balance sheet. The general principle upon which the fixed
assets of a company were valued was that of a going concern and there was no need to take
temporary fluctuations into account. These views were widely shared among auditors. However,
if writing off was necessary, it should be against a reserve created out of profits, and not as a charge
against profits, since this treatment would not show the results of the trading activities for the
current period. My review of the professional literature did not reveal any subsequent publications
in the period reviewed in this chapter presenting a different view.

4.3.1.5 Insurance company financial reporting developments
The history of UK insurance accounting in the period presented in this chapter was described
by Raynes.\(^\text{89}\) He noted that the early companies acts did not address the financial reporting problems
of insurance companies, since they did not include specific provisions for these companies. On the
other hand, around 1841, some life insurance companies, such as the ‘Legal and General’, started on
a voluntary basis to make financial information publicly available. But the overall reporting
situation was still considered unsatisfactory, also by industry professionals. Raynes mentioned an anonymous
writer, who published in 1853 an article in the Assurance Magazine, the semi-official organ of the
‘Institute of Actuaries of Great Britain and Ireland’, which pointed out the difficulty of ascertaining
the true position of (life insurance) companies owing to the lack of any satisfactory form of
presenting the accounts: “Many give out a mere cash account with which the public has nothing to
do, and from which it can derive no useful information, and scarcely one does, as it is imperatively
necessary that it should, viz. first state the receipts of the year and the charges of it and then append
a balance sheet.”

This critical assessment of contemporary practice was confirmed in an article produced in 1905,
which stated that, prior to the life assurance companies act of 1870, the accounts of many
companies were considered “confusing” and “unsatisfactory”.\(^\text{90}\) It quoted a passage from an article
entitled ‘An exposition of the leading principles of bookkeeping’ by Young, a high authority on life
insurance subjects: “The practice of insurance companies generally prior to the Life Assurance
Companies Act of 1870 was the presentation of cash accounts only, whether they pertained to the
business of a particular year to which the account applied, or also to the prior and subsequent years.
... Hence each year’s account was of a confused and heterogeneous character, and furnished no
genuine index to the transactions solely applying to that year. Money invested on mortgage or in
securities would be entered as a disbursement, and the repayment of loans or the proceeds of the
sales of investments would be comprised in income.”

It would take until the adoption of the 1870 act, described later as part of the UK prudential
reporting developments, that this was addressed. Whether or not the provisions of this act resulted
in improved reporting to shareholders, is discussed in that section as well.

\(^{88}\) The Accountant (1897).
\(^{89}\) Raynes (1948), p. 250-257.
\(^{90}\) Leslie (1905).
4.3.1.6 Summary and conclusions
The description in this section shows that ‘generally accepted accounting policies in the UK’ (henceforth, ‘UK GAAP’) was under development since, in particular, the beginning of the 19th century. This development was supported by the work of select committees, which investigated issues in practice and formulated recommended changes in legislation. When these proposals were supported by Parliament, an amendment act was adopted, which was subsequently absorbed in a so-called consolidation act, combining all previous legislation into one new act. In this way, there was a continuous interaction between developments in practice and in legislation.

It also became clear that the concept of a full and fair balance sheet was already introduced in 1844, which – as is shown in the next chapters – would be a fundamental principle in UK GAAP since. However, this concept did not immediately result in specific requirements regarding the contents of the financial statements. Although the 1862 companies act did include a format for the balance sheet, this was only a recommendation without legal force. Furthermore, there was no format for a profit and loss account, nor were there guidelines or requirements in respect of accounting principles.

The 1862 act also did not require the publication of (any part of) the financial statements. This was only introduced in the companies act of 1907 by the mandatory filings with the Board of Trade, and was limited to the balance sheet of a public company: private companies were exempted from all such requirements. However, at the same time the recommended format for the balance sheet was abolished, giving companies full freedom to report in the way they wished. The 1907 act was also the first act specifically addressing life insurance companies: if they were subject to the requirements of the life assurance companies act of 1870 (a prudential supervision act), including those dealing with reporting, they were exempted from such requirements under the companies act. This meant, in reality, that the legislator explicitly allowed (but not required) these life insurance companies to adopt a single-track reporting approach. Since there were no requirements to provide additional information and prudential filters were not applied, this was a type 1 approach.

Regarding the selected elements of financial reporting, the developments in UK GAAP did not provide sufficiently detailed information to derive specific conclusions.

4.3.2 Financial reporting developments in the US
4.3.2.1 Introduction
This section presents the financial reporting developments in the US. It first explains the origin of these developments, describing the lack of government initiatives and the concepts used in practice to prepare financial statements. Next, it discusses the role of the auditing profession, the major stock exchanges, and the role of the tax authorities. The section shows that it were, in particular, the initiatives of two federal organisations in the mid-1910s and the NYSE at the end of the 19th century which influenced the developments in financial reporting. Finally, it briefly describes the evolution of consolidated accounts in the US.

As is noted in section 2.7, I define ‘GAAP’ as “a set of generally agreed conventions, rules and procedures for the financial reporting practices by companies”.

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The section ends with a summary and overview of conclusions, which explains that, because of the lack of specific financial reporting requirements, a debate on or the development of a single-track reporting approach were not applicable.

4.3.2.2 The origins of the financial reporting developments
Financial reporting developments in the US were the subject of many publications, several of which are discussed in this dissertation. One of the earliest authors was Mueller, who explained that the accounting concepts and practices in the US, usually referred to as ‘generally accepted accounting policies’ (henceforth, ‘US GAAP’), developed as a set of pragmatically evolved rules which guided, within limits, the professional judgement of US certified public accountants (henceforth, ‘CPAs’). Mueller identified five major influences on this development, three of which are described in this section:

- The role of the auditing profession;
- The requirements of the major US stock exchanges;
- The establishment of the ‘Securities and Exchange Commission’ (henceforth, the ‘SEC’), discussed in the next chapter;
- The regulations of the US federal income tax and US ‘Internal Revenue Service’; and
- The contributions of accounting educators.

The early US reporting practices were described by Normand and Wootton, who noted that if companies included balance sheets in their annual reports in the period 1865-1879, there was no uniform style. Assets on the balance sheet were not classified into categories. Moreover, it was often practice to offset certain assets with liabilities and present only the net amount. At the time, there were only few reporting guidelines and in the limited number of accounting/bookkeeping texts that were available, the preparation of financial statements was often ignored. This started to change during the last decades of the 19th century, when the business environment in the US altered drastically. The country was transformed from a largely agrarian economy to one in which major industries were dominated by a few companies that had become large, vertically integrated, centralised enterprises. However, there was little change in the preparation and appearance of the financial statements themselves: the preparation of the balance sheet in the US continued to be influenced by the needs of creditors. As a result, reporting practices varied widely despite a growing need for financial information. At the same time, this was the period in which the first consolidated financial statements were published, as is described near the end of this section.

In this environment, there were little or no government initiatives in the area of financial reporting. One action occurred at the turn of the 19th century, driven by political reformers’ demands for corporate responsibility.

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93 See section 5.3.3.2.
94 According to Mueller, the influence of accounting educators was moderate, since a lot of research was of a deductive nature. For this reason, this factor is not separately described in this dissertation, although academic literature was used as a source of reference in several sections.
95 Normand and Wootton (2001).
96 Apart from those concerning railway companies, described previously in section 2.3.4.
For these reformers, the most universally suggested and accepted remedy for the clear abuses that accompanied the rise of financial capitalism was the publicity of financial statements. On the other hand, both businessmen and government officials preferred that control be left in the private sector. To form an opinion on potential next steps, the government established, in 1898, the ‘Industrial Commission’. This commission published a preliminary report in 1900, which concluded that an independent public auditing profession ought to be established to effectively curtail corporate abuses. This would help to achieve its objective, which was “to prevent the organisers of corporations or industrial combinations from deceiving investors and the public, either through suppression of material facts or by making misleading statements.” The final report, issued in 1902, concluded that “the larger corporations – the so-called trusts – should be required to publish annually a properly audited report, showing in reasonable detail their assets and liabilities, with profit and loss; such a report and audit under oath to be subject to government regulation.” However, no action was taken by the government until a decade later, as is described next.

A review of available literature covering the period described in this chapter did not reveal any specific literature regarding the financial statements of insurance companies.

4.3.2.3 The role of the auditing profession

The origins of the American auditing profession were most extensively described by Zeff.\footnote{Zeff (1971), p. 110-117.} He mentioned the foundation, in 1887, of the ‘American Association of Public Accountants’ (henceforth, the ‘AAPA’). It was reorganised in 1916 and renamed the ‘American Institute of Accountants’ (henceforth, the ‘AIA’) in the following year. In 1957, the name was changed into the ‘American Institute of Certified Public Accountants’ (henceforth, the ‘AICPA’). These auditing bodies would develop themselves, until the early 1970s, as the most important US bodies from the standpoint of authoritative pronouncements on financial reporting principles, as is described later in this dissertation.\footnote{See section 5.3.3.4.}

In April 1909, the AAPA appointed a ‘Special Committee on Accounting Terminology’. It reported on definitions of accounting terms at the annual meetings of the organisation in 1909, 1911 and 1913. In 1915, it proposed a list of terms and definitions for official approval. Although its report was adopted, the committee was not reappointed. During the same period, shortly after they had been created by Congressional legislation in 1913 and 1914, respectively, the ‘Federal Reserve Board’ (henceforth, the ‘FRB’) and ‘Federal Trade Commission’ (henceforth, the ‘FTC’) became concerned about the highly variable quality of financial reports and independent audits.\footnote{The FRB was created to establish the monetary policy and monitor the economic health of the US. The FTC was set up to stimulate the fundamental principles of trade, commerce and industry.}

In 1914, the FRB issued a circular which announced that it might recommend and give preference to commercial paper accompanied by balance sheets certified by professional auditors. And in 1915, the FTC vice-chairman indicated an intention to establish uniform financial reporting systems for all the principal businesses in the country, perhaps on an industry basis. These developments resulted in the preparation of a publication by the AIA in 1917 of a report entitled ‘Uniform accounting’.\footnote{The following description of this report and its background is derived from AIA (1929).}
The 1917 report ‘Uniform accounting’

The first chairman of the FTC was a firm believer in the theory that “the accounts of a business should be so kept and so audited that creditors and stockholders could have the comfortable assurance of the probability of accuracy and safety”, i.e. that the focus of financial reporting should be wider than just on investors. He shared the belief of the AIA that something could be done in this area by preparing and distributing a set of instructions which would serve as a guide to auditors, bankers, credit men and the business public. To start the movement of reform, he approached the AIA and requested assistance.

With some already existing manuals in audit firms as a point of departure, an AIA committee started to work and produced a report, entitled ‘Uniform accounting’. Subsequently, the FTC took the report to the FRB, and advocated general distribution of the text. A few changes were inserted by advisors of the FRB, and the matter was then printed, as a tentative proposal for consideration, in the Federal Reserve Bulletin for April 1917. After the first edition of the document, the FRB changed the title to ‘Approved methods for the preparation of balance sheet statements’. The revised edition represented what the AIA believed to be the best modern practice of the profession at that time. The new document was issued with the main intention of standardising the forms of statements submitted to bankers for credit purposes.

The proposed balance sheet presented assets and liabilities, both in the order of decreasing liquidity, with shareholders’ equity (or ‘net worth’, as it was called at the time) as the last line on the credit side, before contingent liabilities. The profit and loss account started with gross sales, showed some specified deductions to arrive at net income for the period, and then showed separate lines for special credits and special charges to profit and loss. The balance was labelled profit and loss for the period. Subsequently, within the profit and loss account, it continued with the surplus at the beginning of period, separate lines showing additions or deductions to the surplus attributable to prior periods and dividends paid, ending at the earned surplus at the end of period. In other words, it was, in my view, a combination of a profit and loss account and a statement of changes equity. Although this part of the document did not include any valuation principles, it did indicate that prior period adjustments should be accounted for in surplus, and not in the profit and loss account. However, some valuation principles were included in the detailed instructions, focusing on historical cost and prudence. These detailed instructions were directed to audit procedures, detailing the audit steps for each heading in the balance sheet and the profit and loss account, including presentational issues (when items should be presented as separate lines or under which group they should be classified).

4.3.2.4 The requirements of the major stock exchanges and the tax authorities

The early developments by US stock exchanges regarding financial reporting requirements were described by Normand and Wootton.\textsuperscript{102} The first step was taken in 1869 by the NYSE, requiring listed companies to publish an annual financial report. Many companies, however, did not comply and the NYSE usually did not take action. In 1885, the NYSE further weakened its own policy by establishing a dual listing of shares. It created an ‘Unlisted department’ where companies were not required to furnish the exchange with financial information. Nevertheless, these unlisted shares were traded, being distinguished on quotation sheets only by an asterisk.

\textsuperscript{102} Normand and Wootton (2001).
However, in 1899 the NYSE took definite steps by requiring the filing of the financial statements by listed companies on a regular basis.\textsuperscript{103} Consolidated accounts were encouraged from the early 1920s, when the NYSE “laid special stress on the necessity of filing consolidated balance sheets”.\textsuperscript{104}

Legislative requirements regarding securities transactions were only introduced in the beginning of the 20th century. According to Nobes and Parker, this happened on state level first, beginning with Kansas in 1911.\textsuperscript{105} Such state legislation became widespread and was generally known as ‘blue sky laws’, referring to the fact that unscrupulous Kansas dealers had been trying to sell the blue sky. The acts normally required the registration of a proposal to offer securities for sale, and the disclosure of information. This was, in my view, a clear focus on the interest of investors. Legislation on federal level was absent until the 1930s, when the ‘Securities act of 1933’ and the ‘Securities exchange act of 1934’ were introduced. These are discussed in the next chapter.\textsuperscript{106}

In the period reviewed in this chapter, the influence of US tax regulations on financial reporting developments was limited, but important. It was particularly the introduction, in 1913, of the first ‘Revenue act’ that forced companies to keep adequate accounting records, something many had never done before. A second act followed in 1918.\textsuperscript{107} This act required consolidated returns of net income and invested capital from 1919 onwards.\textsuperscript{108}

\textbf{4.3.2.5 The evolution of consolidated accounts}

As with other financial reporting developments, this evolution was described by several authors. For instance, Nobes and Parker mentioned that there were US examples of consolidation at least as far back as the 1890s, and that it was universal practice by the early 1920s.\textsuperscript{109} They provided the following overview of factors influencing this increase:

- A wave of mergers at the turn of the 19th century, leading to the carrying on of business by groups of companies;
- The prevalence of the holding company (which merely owned investments) as opposed to the parent company (which was one of the operating companies of the group);
- The lack of a legal requirement to prepare holding/parent company balance sheets;
- The lack of legal or other barriers to the emergence of new techniques, and the existence of innovative professionals;
- The use of consolidation for tax purposes (from 1919 to 1934); and
- The acceptance of consolidation by the NYSE (1919).

\textsuperscript{103} Previts and Merino (1979), p. 89.
\textsuperscript{104} Edwards (1991).
\textsuperscript{105} Nobes and Parker (1995), p. 146-147.
\textsuperscript{106} See section 5.3.3.2.
\textsuperscript{107} Zeff (2003).
\textsuperscript{109} Nobes and Parker (1995), p. 52. According to Edwards (1991) however, the first set of consolidated accounts was thought to have been prepared for the ‘American Cotton Oil Trust’ already in 1866, but it were the published consolidated accounts of the ‘U.S. Steel Corporation’ for 1902 that had received close attention from accounting historians.
In this development, there was not much need for partial steps such as the equity method. Nevertheless, this method was used in parent company statements for certain subsidiaries, in cases where “ownership was not complete but still controlling”. In these circumstances, the equity method in parent company statements was seen as a reasonable alternative to the preparation of consolidated statements.\textsuperscript{110} Goodwill was generally immediately charged to the reserves.\textsuperscript{111}

4.3.2.6 Summary and conclusions
The description presented in this section shows that, in contrast to the UK, US GAAP had not been the result of a number of successive companies acts, but had developed pragmatically to help preparers and auditors address financial reporting issues. Government initiatives were limited to actions from the FRB and the FTC, in close cooperation with the auditing profession, when they issued the 1917 recommendations on uniform accounting practices. And even these were limited to the layouts of the balance sheet and the profit and loss account, and did not provide comprehensive guidance on accounting principles.

Regarding other parties involved, the auditing profession started to involve itself in the debate on financial reporting requirements from the mid-1910s, as did the tax authorities when they demanded the tax returns to be prepared on a consolidated basis from 1919 onwards. The only real requirements focused on the interest of investors and were related to the listing of securities, either in the form of conditions set by the stock exchanges such as the NYSE (which started to require, from 1899 onwards, the publication of financial statements by listed companies), or through state legislation introduced in the beginning of the 20\textsuperscript{th} century.

At the same time however, as a result of an increasing number of mergers and the creation of holding companies, and with the support of the NYSE and the tax authorities, practice developed consolidated financial statements as the primary reporting tool for groups of companies, without providing a stand-alone balance sheet for the holding or parent company at the same time. In creating these groups, goodwill was usually immediately charged to the reserves. Regarding the other selected elements of financial reporting, I have not been able to find guidance or information on the actual reporting practices.

Because of the absence of specific financial reporting requirements, a debate on or the development of a single-track reporting approach were not applicable.

4.3.3 Financial reporting developments in the Netherlands
4.3.3.1 Introduction
This section describes the Dutch financial reporting developments until 1922.

It starts with an overview of the legislative initiatives, beginning with the establishment of a Dutch commercial code in 1826, followed by a description of several failed attempts to amend and update this code between the 1870s and the 1910s. The result of these failures was that there were no financial reporting requirements for joint stock companies during the full period reviewed in this chapter.

\textsuperscript{110} Nobes (2002).
\textsuperscript{111} Andrews (1981).
Subsequently, the section provides the origins of the Dutch auditing profession, continuing with a description of the history and the role of the Amsterdam Stock Exchange in respect of financial reporting requirements. Next, it continues with a summary of the most important issues discussed in respect of accounting policy choices as far as general topics are concerned, in particular the debate on the acceptability of secret reserves.

The discussions on the desirable and actual reporting practices of Dutch insurers, including those on a single-track reporting approach, are presented later in this chapter, when describing the practices adopted by the companies reviewed in this dissertation. The section ends with a summary and an overview of my conclusions.

4.3.3.2 Legislative developments in the 19th and early 20th century

4.3.3.2.1 The establishment of a commercial code

The first legislative step to establish some sort of financial reporting legislation, after the abolishment of the French ‘Code de Commerce’ in the early part of the 19th century, occurred in 1826, with the adoption of the first parts of a new ‘Wetboek van koophandel’ (henceforth, the ‘commercial code’).

Firstly, an act was published requiring all merchants (including those active in the field of insurance) to “keep a journal”, in which all transactions should be accounted for. Furthermore, such a person was obliged to prepare annually a balance sheet, within three months after the end of each year. Secondly, an act was adopted stating that the incorporation of all joint stock companies (including insurance companies) required Royal authorisation. The resulting new commercial code was scheduled to be effective as of 1 February 1831. However, after the outbreak of the revolution in the southern part of the Netherlands in the summer of 1830, it was decided, at the beginning of 1831, to postpone this date indefinitely, until these problems were resolved. Furthermore, the delay was used to review the already adopted commercial code for any necessary changes after the separation of Belgium.

Soon after, it appeared that it was not sufficiently clear in practice which requirements had to be met in order to obtain Royal authorisation. To address this situation, a Decree was issued in 1833, including an overview of the provisions which had to be included in the articles of association of a joint stock company. Among others, the Decree clarified the minimum percentages of issued and paid-in capital at incorporation, and the situations in which a company had to be dissolved. At the end of 1835, these percentages were decreased, and the dissolution provisions were extended with the requirement to notify the public if accumulated losses exceeded 50% of the authorised capital. This meant, in my view, that the focus was on investors as well as creditors. Finally, the company had to disclose to its shareholders the amount of annual profit or loss.

The revised commercial code was effective as of 1 October 1838.

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112 Secretaris van Staat (1826a), Staatsblad 1826, nr. 19.
113 Secretaris van Staat (1826b), Staatsblad 1826, nr. 20.
114 Secretaris van Staat (1830a), Staatsblad 1830, nr. 41.
115 Secretaris van Staat (1831a), Staatsblad 1831, nr. 1.
116 Secretaris van Staat (1831b), Staatsblad 1831, nr. 6.
117 Secretaris van Staat (1833b), Staatsblad 1833, nr. 60.
118 Secretaris van Staat (1836), Staatsblad 1836, nr. 44.
119 Secretaris van Staat (1838), Staatsblad 1838, nr. 12.
4.3.3.2.2 The ‘Jolles’ proposal of 1871
As described by Zeff et al., the commercial code of 1835 was not amended until the end of the 1920s, despite several government initiatives from 1871 onwards.\(^{120}\) The authors noted that, as a result of the increasing need for family-owned companies to seek outside capital, a debate started on the introduction of legislation requiring companies to publish their financial statements, to protect the position of outside shareholders.

The first attempt to introduce such requirements was made by the government in 1871, when it submitted a bill to amend the commercial code in respect of joint stock companies.\(^{121}\) This was the so-called ‘Jolles’-proposal, named after J.A. Jolles, the responsible Minister of Justice. Under the bill, the existing Royal authorisation was abolished and replaced by more extensive publication requirements, for instance on the amount of capital, and when the accumulated losses were more than 75% of the authorised capital. In the explanatory memorandum to the bill, reference was made to recent developments in Belgium, France, Germany and Switzerland, but also to the UK companies act of 1862, described earlier when discussing the UK financial reporting developments, where advance authorisation was abolished as well.

According to the interim report of the discussions in the Second Chamber on the bill, the members raised significant concerns in two opposite directions: one part felt that the proposals were too extensive, and another part that the proposals did not go far enough, for instance by not requiring the publication of a balance sheet and a profit and loss account, making these documents available to the public in general and not only to shareholders. In particular on this last issue, there were fundamental differences between the parties in Parliament. On some other issues, however, the views were more aligned: in particular, the proposed abolishment of the Royal authorisation was supported. Regarding insurance companies, some members raised questions about the future legal position of mutual insurance companies and funeral funds, which were not covered by the proposed amendments. After these discussions, the bill was withdrawn.\(^{122}\)

4.3.3.2.3 The ‘Kist committee’ proposal of 1890
A restart was made at the end of 1879, when an advisory committee chaired by J.G. Kist, a member of the Supreme Court, was installed. It issued its report in 1890.\(^{123}\) The recommendations included the establishment of a trade register, and provisions regarding a joint stock company, a mutual insurance company, and a cooperative society.

Regarding joint stock companies, the committee noted that the existing system of advance Royal authorisation was criticised already for about 30 years, and that commentators requested its abolishment, accompanied by better protection of those who concluded some kind of arrangement with the company. The committee therefore recommended a considerable expansion of the publication requirements, as had also been done in Belgium, France, Germany, Portugal, Switzerland and the UK. In my view, this proposal confirmed the existing focus on investors as well as creditors. Regarding financial reporting, it proposed the annual publication of a balance sheet and a profit and loss account, and introduced specific requirements in respect of these statements:

\(^{120}\) Zeff et al. (1992), p. 35.
\(^{121}\) Tweede Kamer (1871), nr. 65.
\(^{122}\) Tweede Kamer (1910), nr. 217, p. 15.
\(^{123}\) Commissie Kist (1891).
• The balance sheet should include 14 specified categories of assets and five categories of liabilities in separate lines, including the balance of the profit and loss account; and
• The profit and loss account should be prepared in accordance with the rules for the balance sheet; no further requirements were proposed.

The model of the balance sheet is presented in the following table.

Table 4.1: Kist committee of 1890 – balance sheet for joint stock companies

<table>
<thead>
<tr>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorporation or other costs not yet charged to the profit and loss account</td>
</tr>
<tr>
<td>Land and buildings</td>
</tr>
<tr>
<td>Machinery</td>
</tr>
<tr>
<td>Rolling equipment of railroads and other means of transportation</td>
</tr>
<tr>
<td>Ships</td>
</tr>
<tr>
<td>Securities and bonds</td>
</tr>
<tr>
<td>Shares in other companies</td>
</tr>
<tr>
<td>Treasury shares</td>
</tr>
<tr>
<td>Coins</td>
</tr>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Balance of current accounts and deposits</td>
</tr>
<tr>
<td>Debtors, with separate disclosure of bad accounts and any allowances</td>
</tr>
<tr>
<td>Unamortised discounts on outstanding debts</td>
</tr>
<tr>
<td>Expected reductions in conditional creditors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised share capital, issued shares, and not fully paid-in shares</td>
</tr>
<tr>
<td>Reserves or allocated amounts for replacement</td>
</tr>
<tr>
<td>Outstanding creditors</td>
</tr>
<tr>
<td>Conditional creditors</td>
</tr>
<tr>
<td>Balance of the profit and loss account</td>
</tr>
</tbody>
</table>

Source: table A9.57.

Regarding mutual insurance companies, the proposed provisions were much more limited than those for joint stock companies: the listed publication requirements regarding the balance sheet and the profit and loss account were not included. However, the report did include a proposed definition of such a company, which referred to mandatory contributions from members, and to the liability to pay monetary amounts or to provide services to such members in case of the occurrence of an uncertain event.

The committee proposals were discussed in several publications, including those issued by members of the auditing profession. For instance, J.G.Ch. Volmer, a professor in Leiden (the Netherlands) and Rotterdam, and one of the founding fathers of the Dutch auditing profession, supported in 1897 the publication of a balance sheet (including the related accounting principles), but had reservations regarding the profit and loss account.124 In his view, this schedule should be limited to the gross and net results, and to the profit appropriation. In 1900, G. van Slooten noted and supported the direction to abolish Royal authorisation in exchange for a system of a higher level of publicity, in particular because of the interests of non-shareholders in companies, such as creditors and employees.125

124 Volmer (1897a).
125 van Slooten (1900).
Van Slooten argued that, since these parties, in contrast to the shareholders, did not have access to the specifics of the company, they had to rely on publicly available information, which should be “waar” (true) and “duidelijk” (clear). In his view, this could only be achieved by the introduction and publication of a standardised format for the balance sheet and the profit and loss account, applicable to all companies irrespective of their activities.

The views of van Slooten were not supported by J.J.H.M. Nijst, an associate of Volmer, who argued in 1905 that introducing a standardised format would sacrifice “duidelijkheid” (clearness) and “overzichtelijkheid” (clarity) for uniformity. He considered this a step backwards, although he could support an approach under which standardised forms were developed for specific industries, such as life insurance companies. However, on balance he was more in favour of extensive disclosures. A view similar to that of Nijst was presented by the auditor J. Beerenborg in 1907. He referred as examples to the specific models included in the UK reporting requirements for, among others, railway companies and life insurance companies. However, in his view there should be more emphasis on the disclosure of accounting principles, which should not be regulated by the legislator but left to the companies. This would justify the variety of acceptable approaches, presented in the economic literature but also applied in practice.

4.3.3.2.4 The ‘Nelissen’ proposal of 1910

After the report of the Kist committee was issued, a period of non-activity started again. Despite the adoption of a resolution in the Second Chamber mid-1906 to make urgent progress in amending the commercial code, resulting in a promise made by the Minister of Justice that a new bill would be submitted before the end of the year, it would take until 1910 before such a document would be published. This bill was the so-called ‘Nelissen’-proposal, named after A.P.L. Nelissen, the then active Minister of Justice. The explanatory memorandum noted that the bill was largely based on the proposals of the Kist committee, supplemented by provisions to protect minority shareholders.

The bill proposed specific requirements for all joint stock companies regarding a prospectus (focusing on investors), but also the mandatory publication of the balance sheet and the profit and loss account of the company, once approved by the shareholders (which, in my view, was aimed at a wider group of users, including creditors). However, the government deliberately refrained from proposing any detailed provisions regarding the composition of and measurement bases for these statements, since this would be in conflict with the general principle of freedom of business activities.

According to C.G. von Reeken, the proposals would not address the existing financial reporting problems in the life insurance industry (described later in this chapter when presenting and commenting on the actual reporting practices of life insurers), since these companies were, in his view, companies of ‘trust’, and not companies of ‘commerce’, so they were not in the scope of the commercial code and would, therefore, not be subject to the publication requirements.
The bill was also discussed by van Slooten in 1912.\textsuperscript{132} Although he agreed it would be useful to prescribe the contents of the financial statements, he also believed that mandatory publication should be limited to a specific group of companies: those who were engaged in certain activities (such as saving banks and life insurance companies), those who had issued bearer bonds, and those who were listed on a stock exchange.

The literature regarding the bill of 1910 was summarised and commented on by B.T.W. van Hasselt in his dissertation, published in 1919.\textsuperscript{133} He noted that, although the bill had been submitted in 1910, there was still no progress to date, which was mainly caused by a fundamental difference in views between the government and Parliament. The issue was whether there should be different treatments for public and private joint stock companies, where the first issued shares to the public, and the second did not.\textsuperscript{134} Although Parliament supported the principle of publicity for public companies, it rejected it for private companies. This view was not supported by the government, with a stand-still situation as a result of this debate.

Van Hasselt supported those who, inside and outside Parliament, opposed the ‘one size fits all’ approach in the bill, and referred to existing legislation in Germany, but also in the UK under the companies (consolidation) act of 1908, described in the overview of the UK financial reporting developments. In his view, a distinction between public and private companies, in line with this foreign legislation, could also address the issue of a mandatory or non-mandatory format of the balance sheet. For public companies, he followed the approach advocated by van Slooten in 1912, complemented with disclosure requirements for specific industries, such as mortgage banks or insurance companies. However, for private companies there should be no requirements at all.

It would again take a number of years before any progress regarding these proposals was made and a new commercial code was adopted in 1929.\textsuperscript{135} As is described later in this chapter when presenting the Dutch prudential reporting developments, the ongoing debate was also a major obstacle in developing the first Dutch life insurance supervisory legislation, as the lack of an appropriate legal system for joint stock companies was often used as an argument to reject any form of supervision of life insurance companies. However, adverse developments on the market overruled this debate and a life insurance business act was adopted in 1922, so well before the changes in the commercial code were introduced. In the meantime an interim step was taken through the adoption of an act to establish a trade register, to be kept by the ‘Kamers van Koophandel’ (henceforth, the ‘Chambers of Commerce’).\textsuperscript{136} This act was applicable to a large number of organisations, including all joint stock companies and mutual insurance companies. One of its requirements was to register the amount of issued share capital, and a list of the holders of shares which were not fully subscribed.

\textsuperscript{132} Zeff et al. (1992), p. 48-49.
\textsuperscript{133} van Hasselt (1919).
\textsuperscript{134} It should be noted that, both during discussions in Parliament and in the literature, the distinction was often made between ‘open’ and ‘closed’ companies. After having analysed what was meant by these terms, it is my conclusion that these terms were similar to the UK terms of ‘public’ and ‘private’ companies. To align terminology, I have chosen to use the UK terminology, since this existed already for a number of years before the debate in the Netherlands was held, and because this distinction was introduced earlier in this chapter when describing the UK companies act 1907.
\textsuperscript{135} See section 5.3.4.2.2.
\textsuperscript{136} Minister van Justitie (1918b), Staatsblad 1918, nr. 493.
4.3.3.3 The role of the auditing profession and the stock exchange

4.3.3.3.1 The role of the auditing profession

The history of the Dutch auditing profession goes back to the end of the 19th century when, between 1883 and 1893, a number of auditing firms were established. These developments resulted in 1895 in the creation of the first professional auditors organisation, the ‘Nederlandsch Instituut van Accountants’ (the ‘Dutch Institute of Auditors’), henceforth, the ‘NIVA’. According to Scott, its initial regulations were largely based on those of the ICAEW in the UK. As the NIVA was soon experienced as a ‘closed shop’, between 1899 and 1903 four other organisations were created. But also within the NIVA not all was peaceful, which resulted, in 1907, in the departure of a number of members, headed by Th. Limperg Jr., another founding father of the Dutch auditing profession, and the establishment of the ‘Nederlandsche Accountants-Vereeniging’ (the ‘Dutch Auditors Society’), henceforth, the ‘NAV’. After 12 years of independence, Limperg integrated the NAV into the NIVA in 1919.

On the other hand, between 1906 and 1928 ten new professional accounting organisations were formed. This included the ‘Nederlandsche Broederschap van Accountants’ (the ‘Dutch Brotherhood of Auditors’) in 1909, henceforth, the ‘Broederschap’; the ‘Nederlandsche Unie van Accountants’ (the ‘Dutch Union of Auditors’) in 1927, henceforth, the ‘Unie’; and, in the same year, the ‘Vereeniging van Academisch Gevormde Accountants’ (the ‘Society of Academically Trained Auditors’), henceforth, the ‘VAGA’.

In the period reviewed in this chapter, there were only contributions to the financial and prudential reporting debates by individual members of these organisations, and no specific public statements by the organisations themselves. But these members were, of course, influenced by the discussions within their organisations and by their theoretical and practical background. Furthermore, the organisations provided a number of platforms for such discussions, for instance in the form of periodical meetings of their members, and the creation of professional magazines.

Regarding this theoretical background, Nobes argued in 1980, as is described in chapter 2, that the financial reporting practices in the Netherlands were primarily based on the theory of business economics. This was confirmed by research carried out by the Amsterdam accounting professor Jan Klaassen and Hein Schreuder, a professor in business economics in Maastricht (the Netherlands), who explained that, historically, accounting was part of this broad discipline. It had been created in the beginning of the 20th century, responding to pressure from practice, and resulted in the establishment of Dutch university chairs in Delft (1909), Rotterdam (1913), and Amsterdam (1922). In Rotterdam, the focus was generally oriented toward finding practical solutions to business problems. In Amsterdam, on the other hand, the emphasis was much more on theory, an approach which was strongly influenced by Limperg.

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138 Scott (1971).
140 Ibid, p. 121.
Klaassen and Schreuder described that Limperg “aimed at developing a comprehensive and internally consistent theory of the business enterprise based on a few fundamental economic axioms. In his opinion, it was essential that business behaviour be explained and described from an economic viewpoint.” The approach developed by Limperg played a dominant role at the University of Amsterdam until the 1970s, and influenced a large number of Dutch auditors.

4.3.3.3.2 The role of the stock exchange

The primary stock exchange in the Netherlands was the Amsterdam Stock Exchange. The history of this market goes back to 1602, when the ‘Vereenigde Oost-Indische Compagnie’ (the ‘United East Indies Company’) was created. This was the largest company in the Netherlands at the time, established to develop trade with the East Indies. It had the characteristics of a joint stock company, and its shares were traded at a public market. During the 19th century, more companies issued securities (in particular, debt instruments) on this market, and in 1880 almost 300 companies were listed, of which over 220 were established outside the Netherlands.

In the early days, such trading was completely unregulated, and it would be only around 1787 that traders organised themselves under the ‘Collegie tot Nut des Obligatiehandels’ (the ‘College for the Benefit of Bond trading’). In 1876, it was replaced by the ‘Vereeniging voor den Effektenhandel’ (henceforth, the ‘Stock Exchange Association’), which issued its first ‘Reglement voor den effektenhandel’ (henceforth, the ‘Stock exchange regulations’) one year later. These regulations determined the listing requirements for the Amsterdam Stock Exchange in the rest of the period reviewed in this dissertation. In the beginning, they did not include specific requirements regarding prospectuses. For a decision on a listing, the association decided in 1884 to limit itself to “a review of the security, including everything related to that, such as privileges and mortgages, and whether the fund was traded.” This approach was complemented in 1888 by the decision that no listing would be allowed, if the public was not properly informed on the security; however, there were no specific requirements on what such information should be and how it should be provided. A next step occurred in 1909, when the association ruled that any future prospectuses should include the most recent balance sheet and profit and loss account of a joint stock company, if it wanted its shares to be listed. However, nothing was said about the contents of the financial statements. But this development did show, in my view, an increasing awareness of the need to inform investors.

In this period, government involvement in the activities of the Amsterdam Stock Exchange was limited: the only act dealing with this issue was issued in 1914. This was the ‘Beurswet’ (henceforth, the ‘exchange act’), which ruled that the exchange was subject to government supervision.

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144 de Vries (1976), p. 15.
146 Ibid, p. 45.
147 Ibid, p. 77-78.
149 Grondel (1909).
150 Zeff et al. (1992), p. 41.
151 Minister van Justitie (1914a), Staatsblad 1914, nr. 445.
Under the exchange act, the government was authorised to issue regulations, among others regarding the quotations and the trading methods on the exchange. As is described in chapter 6, this act would stay in force until 1985.152

4.3.3.4 Comments and debate on the choice of accounting principles

There was no specific legal guidance regarding the choice of accounting principles in the period reviewed in this chapter. Companies had to turn to the available literature and to discussions between industry professionals and with auditors to determine their reporting practices.

A review of the literature did not identify a general trend in financial reporting practices by Dutch companies. However, there was one theme that was brought forward in several publications. This concerned the issue of accounting for reserves, including secret reserves. Regarding accounting for reserves in general, the debate, held at the end of the 19th century, was whether unforeseen profits, including realised investment gains, should be reported in the profit and loss account or directly in the reserves. One view, presented by the auditor J.W. Labrijn in 1896, was that such profits were not derived from the ordinary activities of a company.153 For this reason, such amounts should not be included in the profit and loss account. However, a contribution by Volmer made it clear that Labrijn’s views were not generally supported.154 He argued that management was entitled to part of the profit since these influenced their bonuses, and it would therefore be unjustified to account for realised investment gains outside the profit and loss account.155

But there was much more attention in the literature for the issue of secret reserves. One important reason for this debate was provided by G.P.J. Hogeweg, one of the early Dutch auditors, in 1912.156 He explained that there was complete freedom of choice of accounting principles in the Netherlands. In his view, this often resulted in the unacceptable situation that changes in these principles were introduced depending on the financial circumstances, and that consistency was lost. It would also lead to the creation of secret reserves, mislead shareholders in their oversight of management’s activities, and was against the character of the joint stock company, which required full publicity. The topic of secret reserves was already discussed much earlier, for instance by W. Kreukniet, another early Dutch auditor, in 1897.157 In his view, such reserves should be explicitly prohibited, since this practice resulted in misleading figures to shareholders, as neither the balance sheet nor the profit and loss account provided the “juiste” (proper) figures. He also argued against the existing practice to create reserves related to certain assets, such as receivables. Such reserves were, in fact, adjustments to the value of these assets, and should therefore – visibly – be deducted from the assets.

152 See section 6.4.5.2.
153 Labrijn (1896)
154 Volmer (1896).
155 Such a view is, of course, only applicable if management participates in the profit of its company. Whether or not this was customary practice falls outside the scope of this dissertation.
156 Hogeweg (1912).
157 Kreukniet (1897).
An extensive publication regarding reserves was written by Labrijn in 1902. He presented the objectives and financial reporting treatment of several reserves, and explained the problem of terminology in this area. He also discussed the treatment of unrealised gains and losses on investments, and rejected an approach which reported such items in the profit and loss account; instead, they should, in his view, be included in a reserve. Regarding secret reserves, Labrijn pointed at the difference between observable amounts (e.g., by reporting items at an amount of NLG 1) and non-observable amounts, which were hidden by decreasing assets without objective outside information to assess the validity of the balance sheet amounts. Finally, he pointed at the different objectives for individual reserves (e.g., to strengthen the capital of the company, to provide for future dividend payments, to cover exchange differences, or to set aside money for future replacement or expansion), and the unjustified use of the label ‘reserves’ for other items such as the mathematical reserve in a life insurance company or the premium reserve in a non-life insurance company (which, in his view, were actually true liabilities), and for depreciation reserves (which should be reported as reductions of the related assets).

A final contribution on the topic of secret reserves was found in 1907, when Nijst strongly rejected such practices, and argued that all unrealised gains and losses had to be taken into account, to prevent the preparation of “onware” (untrue) balance sheets.

In my view, these discussions show that earnings-management or income-smoothing, a topic that received considerable attention in the 1980s, was already an issue much earlier and was one of the many financial reporting challenges in the late 19th and early 20th century. Whether or not this was also applicable to insurance companies is discussed later in this chapter when presenting the actual reporting practices in this industry.

One other topic in the literature concerned the treatment of goodwill. Hogeweg argued in 1912 that any capitalised amounts should be limited to the amounts paid (in cash or in shares). Related to the special character of this asset, he proposed to charge the amounts resulting from depreciation and write-offs not to the profit and loss account, but to include these amounts in the profit appropriation. On this issue, the auditor J. Polak observed in 1919 that the most widely spread view in the Netherlands was that goodwill maintained its value as long as the business went well, but that it was appropriate to use any surplus profits to amortise the balance sheet amount as soon as possible.

The final relevant topic identified in the literature concerned the annual accounts of holding companies. On this topic, De Maasbode observed in 1922 that it was, in practice, impossible for an outsider to obtain an idea of the real condition of holding companies based on their published balance sheets. Therefore, it very much welcomed the developments in the UK, where, as is described in the UK financial reporting developments, Nobel Industries had published, for the first time, a consolidated balance sheet. It invited the large Dutch companies to follow this good example.

158 Labrijn (1902).
159 As is described in section 2.3.5, this was the distinction between undisclosed and secret reserves.
160 Nijst (1907).
161 See section 2.3.6.
162 Hogeweg (1912).
163 Polak (1919). As is described in section 5.5.9, this view played a role in the approach adopted by the AMEV.
164 De Maasbode (1922).
4.3.3.5 **Summary and conclusions**

The description of the history of Dutch financial reporting developments presented in this section shows that after a commercial code became effective in 1838, not much legislative progress was made. The only important requirement focused on providing annual financial information to the shareholders, not to the public at large. The mandatory Royal authorisation for the incorporation of joint stock companies, introduced by this code, was widely criticised from the mid-19th century onwards, but several government initiatives to abolish this requirement and to introduce more extensive reporting requirements failed. These failures can be explained by strongly diverging views in Dutch society and in Parliament. Although, generally, there was support for the proposed directions (which were based on successive UK companies acts), parties held opposite views on the scope and contents of the proposed publication requirements. Some felt that publication should be limited to public companies, while others were of the view that the proposals did not go far enough. These differences resulted in a deadlock situation, which was still present at the end of the period described in this chapter.

This gap was not filled by other organisations such as the auditing profession or the stock exchange. The auditing profession did organise itself from the end of the 19th century, but did not play any institutional role in the debate, although individual members contributed to the debate through publications in professional magazines and otherwise, for instance in respect of the choice of accounting principles. The role of the stock exchange was limited as well: although requirements to publish a balance sheet and a profit and loss accounts were introduced, the contents of those statements were left to the reporting companies.

In summary, during the period reviewed in this chapter, there were no specific regulations or guidance to assist companies in the preparation of their financial statements, which, according to the available literature, resulted in a wide variety in practice. Whether or not this was also the case for insurers in general and for the companies reviewed in this dissertation, and whether or not there was something similar to a single-track reporting approach in practice, is discussed later in this chapter.

### 4.4 Prudential reporting developments

#### 4.4.1 Prudential reporting developments in the UK

**4.4.1.1 Introduction**

The early UK supervisory acts and regulations were an important source for the development of insurance regulation in the Netherlands. In particular the ‘freedom with publicity’ principle, presented later in this section, was the foundation for the Dutch legislation on life insurance supervision.

The main acts were the life assurance companies acts of 1870-1872, which introduced this principle, requiring specific prudential reporting schedules to be prepared and filed with the Board of Trade, and the assurance companies act of 1909, which expanded the 1870 act to all insurance companies. This section describes the history and the contents of these acts. Unless specified otherwise, all references to earlier comments in this chapter concern the description of the UK financial reporting developments.
4.4.1.2 The life assurance companies act of 1870-1872

Prudential supervision of UK insurance companies started at the end of the 18th century with the introduction of legislation in respect of the so-called ‘friendly societies’. These were organisations raising voluntary subscriptions from their members to create separate funds for the mutual relief and maintenance of these members in sickness, old age, and infirmity. They were the successors of the medieval guilds. The developments of the supervisory requirements were described by Fuller. He noted that, during the 19th century, a number of changes in these acts were introduced, including the creation of the ‘Registrar of Friendly Societies’ as a sort of supervisor on compliance with the legal requirements, the requirement to publish audited annual accounts in a prescribed format, and specific valuation rules in respect of the technical provisions. Although the societies played an important role in the UK insurance business, their legislation only impacted the Dutch developments to a limited extent.

Booth explained that the supervision of commercial insurance companies started with the report issued in 1844 by the 1841 Gladstone committee, discussed earlier in this chapter. Before that year, proprietary life insurance companies could, as other joint stock companies, only be incorporated through the passing of a specific act of Parliament or by Royal charter. The committee proposed that legislation should be introduced that would, on the one hand, encourage the development of life insurance companies, but, on the other hand, promote such regulations as were necessary to ensure that their obligations were met. The resulting companies act of 1844 required the registration of all companies, including insurance and annuity companies, and the filing of every balance sheet. However, as is noted before, there was no specified form of the accounts. Furthermore, the act did not include special provisions relating to insurance companies. Subsequently, several attempts were made to address these deficiencies, but it would take until the late 1860s before fundamental changes were introduced. This was related to the failures of the ‘Albert Life Assurance Company’ and the ‘European Life Assurance Company’ in 1869. A special act was necessary to facilitate the winding-up of these companies. This resulted in the life assurance companies act 1870, with some amendments in 1871 and 1872. The amended and consolidated act became known by the short title, the ‘Life assurance companies act 1872’.

The 1870 act established the principle of allocation of the assets of the life and annuity business into the ‘long-term business fund’ or ‘life fund’, which fund was subject to actuarial reporting and control. It required life insurance companies doing business in the UK to prepare annual overviews of their receipts and expenditure, and of their assets and liabilities. The act set out schedules for the information which should be provided to the Board of Trade, which were based on proposals by the ‘Equitable Life Assurance Society’ (henceforth, the ‘UK Equitable’) to the Gladstone committee.

165 Pulbrook (1887).
166 Hijmans (1964).
167 Fuller (1898).
168 According to Hijmans (1964), there were in 1854 no less than 30,000 of these organisations in England and Wales, with more than five million members.
171 Booth (2007). Regarding the separate life funds, he noted that this approach was substantially unchanged until new composite insurance companies were prohibited under the first EU life directive, enacted in British legislation in the ‘Insurance companies act 1982’. Even this allowed the continuation of existing composite companies. For further details on these developments, see section 6.5.3.1.
Under the 1870 act, the basis for the calculation of the technical provisions should be made public, but there would be no legal requirements for this calculation. The approach became known as ‘freedom with publicity’. The assets covering the life fund could not be used for any other purpose than meeting life insurance obligations. However, it soon became clear that these requirements related to an accounting concept (the designation of assets in the administration of the company) rather than to a legally ring-fenced set of investments.

The contents of the act and the supporting schedules were presented by Pulbrook. The main provisions can be summarised as follows:

- Every company starting life insurance business in the UK was required to deposit the sum of GBP 20,000. This amount was returned as soon as its life insurance funds amounted to GBP 40,000. In my view, this can be seen as an early form of a required solvency margin;
- In case a company was transacting other business besides that of life insurance, it was required to establish a separate life fund. However, for existing companies this would only apply to the contracts entered into after the passing of the act, unless, by the constitution of the company, such a separate fund already existed; and
- Every company should prepare a statement of its revenue account and of its balance sheet in the forms contained in the first and second schedules to the act, respectively. In case the company also transacted any other activities than life insurance or annuity business, the statements should be prepared in accordance with the third and fourth schedules to the act. Furthermore, every company should, once in every five years, if established after the adoption of this act, and once every ten years if established earlier, have its financial condition investigated by an actuary, who should make a report in the form prescribed in the fifth schedule to this act. And every company should, within nine months after the date of each actuarial investigation into its financial condition, prepare a statement of its life and annuity business in the form contained in the sixth schedule to the act.

Compared to the very limited schedules in the 1862 companies act, the 1870 life assurance companies act introduced much more extensive requirements. As is noted earlier in this chapter, the 1862 act did not require a profit and loss account, although it did introduce a number of mandatory line items in the balance sheet. Furthermore, it was not focused on individual industries such as life insurance companies. Under the 1870 act, the format of the balance sheet was tailored to these companies, and required detailed information regarding investments and other insurance-related assets. Furthermore, it introduced a mandatory split of the different technical provisions (‘funds’), per class of business, and other insurance-related liabilities. But, most importantly, it also required a detailed revenue account, showing the movements in the technical provisions per class of business. These movements consisted of premiums, interest income, claims, expenses, and a number of other receipts and payments (which included dividends and bonuses to shareholders, if any): in that respect, it was not a true proper and loss account. However, any surpluses and deficits transferred out or into the fund were shown separately in the fifth schedule.

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172 According to Raynes (1948), in so far as there were companies transacting fire and marine insurance business as well as life insurance business, these composite companies were also affected by the act for their non-life insurance activities.
173 Pulbrook (1887).
174 For an explanation of this term, see section 2.8.1.
175 The schedules are reproduced in tables A9.2 to A9.6.
The schedules for the revenue account did not include specific lines for profits or losses of the year: any surpluses or deficits were added to or deducted from the fund. Similarly, the balance sheet did not show a separate line for retained earnings or any other component of equity apart from shareholders’ capital. As a result, there was no clear distinction between amounts belonging to policyholders and to shareholders. Any surpluses or deficits in the fund were only determined when an actuarial valuation was made and reported at that date.

As is noted before, such assessment was not required annually, but at least once every ten years. But even after such an actuarial valuation the amount of surplus was not shown separately in the balance sheet. This reporting approach made the financial statements of life insurers differ considerably from those of other companies, which had to determine their ‘true’ financial position annually. As is described hereafter, this was noted in the professional literature and received substantial criticism.

Shortly after its issuance, the 1870 act was amended by an act adopted in 1871, which changed some details regarding the investment of the deposited amounts. It was amended again in 1872 by an act, stipulating that the requirement for a separate fund was also applicable to life insurance companies existing before the adoption of the 1870 act. In that sense, it clarified some transitional issues. The act provided important input to the debate on the Dutch prudential reporting developments, as is explained later in this chapter.

Raynes explained that one purpose of the 1870 act was furnishing information to the public, and especially to policyholders and shareholders, which should be sufficient to form the basis of a true estimate of the financial position of the company. For this, some uniformity of presentation of accounts and valuation statistics was essential. This was the main reason to prescribe specific formats in the schedules to the act. All statements, both in respect of the annual accounts and the periodical valuations should be printed and deposited with the Board of Trade, and copies should be furnished upon application to every policyholder and shareholder.

However, the schedules, in particular the revenue accounts, were not without criticisms. In 1904, the editors of The Accountant explained that the annual accounts of a life insurance company differed very materially from the annual accounts of any ordinary undertaking, in that they did not attempt to show profits for the year. Such an attempt was only made when the ‘valuation’ balance sheet was compiled. The intermediate annual accounts were merely interim accounts, and made no attempt to determine either the profits or the liabilities in respect of current policies. The terms revenue account and balance sheet, as applied to these statements, were therefore misnomers. During these interim periods the accounts were practically kept upon a cash basis. Determining the profits of a life insurance company was, generally, not done annually. In the great majority of companies it was applied once every five years, but this frequency was not compulsory in all cases. Therefore, life insurance companies invariably determined their profit by single entry, no attempt whatever being made to prepare a revenue account in the true sense of the term.

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176 Raynes (1948).
177 The Accountant (1904).
4.4.1.3  The assurance companies act 1909

The next major development in life insurance regulation after 1872 was the ‘Assurance companies act 1909’.\(^{178}\) It was the result of the work of a select committee in 1906 and repealed the 1870 act. It brought all insurance business, including non-life insurance but excluding marine insurance business, under one act. The changes for life insurance companies were not substantial. The 1909 act defined five different classes of business: life insurance, fire insurance, accident insurance, employers’ liability insurance, and bond investment business.

Many of the provisions of the act required different classes of business to be treated as if they were written by separate companies. The act came into operation on 1 July 1910. As is described later, the act was, ultimately, the main source of reference for the Dutch life insurance business act.

A possible explanation for the exclusion of marine insurance business was provided by Daykin and Cresswell.\(^{179}\) They noted that there was already separate legislation governing this business, which could be traced back to the first half of the 18th century. It was primarily underwritten at the insurance exchange ‘Lloyd’s of London’ (henceforth, the ‘Lloyd’s’), which had developed its own rules and regulations, including the three year accounting system that reflected the somewhat longer period of risk coverage than for the other classes of non-life insurance business.

The deposit requirements of the 1909 act stated that every insurance company should deposit a sum of GBP 20,000, for each class of business it carried on (in my terminology, a required solvency margin).

Regarding the reporting requirements, the act stated that a separate account should be kept of all receipts for each class of business, which should be carried to separate funds per class. However, separation of investments per fund was not required. Each fund had the purpose of forming the security of the policyholders of that particular class. Each company, at the end of each financial year, had to prepare and publish:

- A revenue account in the form or forms set forth in the first schedule to the act, and applicable to the class or classes of insurance business carried on by the company;
- A profit and loss account in the form set forth in the second schedule to the act, except where the company carried on insurance business of one class only and no other business; and
- A balance sheet in the form set forth in the third schedule to the act.

To assess the financial position of the insurer, all insurance companies should, once in every five years, or at such shorter intervals as required by the company’s regulations or by-laws, cause an investigation to be made into their financial condition, including a valuation of their technical provisions by an actuary. The actuarial report should be prepared in the form set forth in the fourth schedule to the act and apply to the class or classes of insurance business carried on by the company. An investigation should also be made every time when the company intended to distribute (part of) its profits, or when the results would be made public.

\(^{178}\) The full text of the act was published in four parts in The Accountant (1910). Unless indicated otherwise, the description of its contents is based on these articles.

\(^{179}\) Daykin and Cresswell (2001).
At each investigation date, the insurance company should prepare a statement of its insurance business in the form set forth in the fifth schedule to the act and applicable to the class or classes of insurance business carried on by the company.

Concerning publication, every revenue account, profit and loss account and balance sheet should be deposited at the Board of Trade, accompanied by a report on the affairs of the company submitted to the shareholders or policyholders of the company. If the insurance company was registered under the companies acts and also delivered a copy of the documents to the Board of Trade or to the Registrar, it was not required to prepare and publish the statements required by these acts.

In other words, as is explained when presenting the UK financial reporting requirements, it was allowed (but not required) to adopt a type 1 single-track reporting approach. Finally, the act stated that the accounts of the company should be audited, either in accordance with the companies acts, or in accordance with specific rules determined by the Board of Trade.

The 1909 act included special provisions for non-life insurance business, differentiated by class of business.

The schedules to the act defined, in particular, the contents of the statements to be deposited at the Board of Trade. For this dissertation, the following schedules were relevant:

- Schedule 1: the revenue account;
- Schedule 2: the profit and loss account;
- Schedule 3: the balance sheet;
- Schedule 4: a statement in respect of the value of the liabilities;
- Schedule 5: a statement of business; and
- Schedule 6: the rules for valuing the policies and liabilities.

Compared to the 1870 act, the 1909 act required more details on the face of the balance sheet in respect of the technical provisions and the investments. The format of the revenue account showed fewer changes: only some further splits had to be made on the face of the statement. However, the 1909 act did require breaking out the revenue account into more classes of business, and, with respect of life insurance business, into ordinary insurance and industrial life assurance business and into business within the UK and outside the UK.

According to an article published in The Accountant in 1912, however, the auditing profession held the view that not much progress had been made after the adoption of the 1909 act. It referred to an article in The Economist, criticising the report of a well-known insurance company, and stating that although insurance companies were bound by the 1909 act to prepare and file their accounts in a statutory form, many companies were in the habit of issuing to their shareholders a much abbreviated statement of accounts. The editors noted that specific attention should be given to the practice of consolidating revenue accounts, and similarly consolidating the items on the liabilities’ side of the balance sheet. Therefore, they concluded, there was (still) no means of ascertaining the income and expenditure of each department.

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180 The schedules are presented in tables A9.7 to A9.14.
181 The Accountant (1912).
182 The term ‘department’, at the time, referred to a specific class of business.
4.4.1.4  Summary and conclusions
As described in this section, the first specific act regarding the supervision of UK life insurance companies was adopted in 1870: before this year, these companies fell under the general companies acts discussed earlier, or were (temporarily) exempted from the requirements in these acts. The act of 1870 was introduced in response to the demise of two large life insurers in 1869, and was, generally, applicable to life insurers only. It required, compared to the past and to other companies, extensive disclosures on the performance and financial position of the life insurance company.

The 1870 act was based on a concept called ‘freedom with publicity’, under which it was assumed that transparency to the general public (i.e. publicity) was sufficient to ensure appropriate business decisions and accounting principles, taking away the need to provide detailed rules for these issues (i.e. freedom). The act introduced a number of mandatory reporting schedules in respect of a balance sheet and a so-called revenue account, split per class of business. The latter was not really a profit and loss account, but more a “statement of receipts and expenditures”, as it was called in the accounting literature. These documents had to be made publicly available by filing them with the Board of Trade on an annual basis. However, the act did not require an annual valuation of the technical provisions: this was only necessary every five years for new companies, and every ten years for existing companies. There were also no guidelines or requirements regarding the valuation of the assets, or the disclosure of accounting policies.

This situation did not change significantly with the introduction of a new act in 1909, extending, almost 40 years after the start of life insurance supervision, such supervisory and reporting requirements to all classes of insurance business, including non-life insurance business but excluding marine insurance business. Although the new layouts for the balance sheet and the revenue accounts included some additional information and were required for more classes of business, the possibility to determine the life insurance provisions only once every five years was maintained. From this perspective, it was not illogical that commentators were (still) critical about the level of transparency in the annual accounts of life insurance companies, also because the companies act of 1862 allowed (but not required) these companies to designate and publish these prudential statements as their official financial statements and, therefore, to apply a type 1 single-track reporting approach. In fact, the infrequent valuation of the technical provisions made it impossible to assess, in the interim, the true development of the company.

4.4.2  Prudential reporting developments in the US
4.4.2.1  Introduction
To understand the legislative developments in the US, it is important to be aware of the split into federal and state regulation and its political and economic background. This distinction played an important role in the development of insurance supervisory regimes, which was on the level of the states, and the role of the ‘National Association of Insurance Commissioners’ (henceforth, the ‘NAIC’), established in 1871.

This system of state supervision requires a selection of the state to be described, since it is impossible — and, given the purpose of this dissertation, also not necessary — to describe the regulatory developments in all states. I have selected the state of New York, for the following reasons:
According to Schweisheimer in 1961, the supervisory insurance legislation in this state was considered by many as the example to follow.\textsuperscript{183} Wansink mentioned in 1981 that the New York insurance legislation was generally considered as the most prestigious in the US and also as the most stringent;\textsuperscript{184}

As is described in this section and in subsequent chapters, this state had, in particular since the beginning of the 20\textsuperscript{th} century after the discovery of a number of abuses in the insurance industry, taken the lead in many fundamental reforms of insurance legislation;

According to the ‘Appleton rule’ (described hereafter), the New York insurance legislation was effectively applicable to almost all foreign life insurance companies active in the US;

The insurance acts of New York were part of the discussion of the development of Dutch insurance supervisory legislation; and

New York was the state for which most historical material on insurance supervision could be retrieved.

However, before describing the developments in New York insurance legislation (in particular, the establishment of the ‘superintendent’ in 1859 and the first supervisory act in 1906), I first give an overview of the origin and early development of state supervision in general and the establishment of the NAIC, which organisation played a vital role in the development of US insurance supervision during the whole period reviewed in this dissertation.

### 4.4.2.2 The origin and early development of state supervision

In their report for US Congress, Webel and Cobb presented a brief history of the development of insurance supervision.\textsuperscript{185} According to their analysis, the development started in the late 18\textsuperscript{th} century, when the states created the first corporate insurers by enacting individual statutes or charters for each insurer.\textsuperscript{186} These charters included certain rules that applied to that particular insurer. Successive charters developed a pattern, which became the rudiments of state insurance regulation. This system of state supervision was based on the US Constitution, which provided a list of competences of the federal government – including the regulation of trade with third countries and between the states of the Union – and stipulated that “all other, non-listed competences stay with the states or the people.”\textsuperscript{187} This included trade within the states themselves. Based on this principle, the states took the lead in insurance supervision from the very beginning, which was – according to Heyning – understandable because, at the start, insurance companies operated on a local basis only and were created by the states.

McCray described that, by the early 19\textsuperscript{th} century, in over half of the states (most along the eastern seaboard) one or more fire and marine insurance companies were active, and most of these states had adopted legislation imposing general regulatory requirements on domestic companies.\textsuperscript{188} The requirements included minimum initial capitalisation, investment restrictions, technical provisions (or ‘reserves’ in US terminology), and periodic prudential statements.

\textsuperscript{183} Schweisheimer (1961).
\textsuperscript{184} Wansink (1981).
\textsuperscript{185} Webel and Cobb (2005).
\textsuperscript{186} The first US stock insurance corporation was the ‘Insurance Company of North America’ (the ‘INA’), established in 1794: see McCray (1992).
\textsuperscript{187} Heyning (1970).
\textsuperscript{188} McCray (1992).
Yet, because no state agency was charged with overseeing compliance with legislation and examining the condition of the companies, these early systems of regulation were, according to McCray, not very effective.

Massachusetts was the first state to require, in 1818, its property-casualty insurers to submit annual reports. And New Hampshire was the first state to set up an agency to regulate property-casualty insurance in 1851. According to Schweisheimer, a special insurance department was created in the state of New York in 1859. McCray clarified that this meant the establishment of an independent administrative agency headed by an insurance superintendent with licensing and inquisitorial powers. Already in 1860, 20 of the 33 states had enacted legislation for the regulation of insurance and, by 1919, 36 states had established independent administrative agencies to regulate insurance.

Fire insurance and marine insurance were critical to early 19th century US business. Life and health insurance did not begin to grow until much later in the century. The business community bought most marine insurance coverage from European insurers and most fire insurance protection from the growing number of US insurers. State governments taxed those policies for revenue, and in an effort to protect their local insurers, they taxed policies bought from out-of-state insurers at a much higher rate. Insurers objected to the discriminatory taxes and regulation, and in 1866 they challenged – in Congress and in the courts – the states’ authority to impose them. In its 1868 ruling on a test case (‘Paul vs. Virginia’), the Supreme Court disagreed with the insurers, stating that a corporation was not entitled to the protections according to a citizen under the Constitution and that an insurance contract was not an article of commerce within the meaning of its ‘Commerce Clause’. Therefore, the court reasoned, this legal provision did not deprive the states of the power to regulate out-of-state corporate insurers. The decision meant not only that the states could continue to subject insurers from other states to requirements not imposed on local companies, but also that Congress had no authority to regulate insurance policies.

4.4.2.3 The establishment of the National Association of Insurance Commissioners

An important event happened in 1871, when the New York insurance superintendent asked the insurance supervisors (the ‘commissioners’) in each of the 36 states to attend a meeting to discuss insurance regulation. This was the beginning of the ‘National Insurance Convention’ (henceforth, the ‘NIC’). Its main objective was to discuss how to harmonise regulation among the states. Already one year after its creation, it was agreed to use a uniform reporting model (the ‘Convention Blank’) for the prudential statements in each state.

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189 According to McCray (1992), Massachusetts was also the first state to pass life insurance regulatory legislation, in 1880.
190 However, Zartman stated that Massachusetts already in 1807 passed legislation requiring corporations engaged in writing insurance to render an account of their affairs to the General Court: see Zartman (1906), p. 146-147.
191 Schweisheimer (1961).
193 Ibid.
194 The year of this court decision is not exactly clear: other publications mention the year 1869.
195 Randall (1999).
Shortly after, a model act on insurance regulation was drafted, thereby beginning the NAIC’s attention to model acts that would continue to be the case. The NIC evolved into the ‘National Convention of Insurance Commissioners’ (henceforth, the ‘NCIC’) and then into the NAIC.\footnote{198 Meier (1988).}

However, in the early years of the NAIC, its influence was limited, since it came into existence after many states already had created extensive insurance codes. Although these might have been loosely based on the NAIC’s recommended model acts, the NAIC could not mandate that its models were adopted.\footnote{199 Ettlinger et al. (1995).} Despite these problems and the limited influence in its first decades of existence, the creation of the NAIC would have a major impact on insurance supervision for the years to come, as is described in the subsequent chapters of this dissertation.

There was, however, one area where the NAIC already started to prove its value. This was in respect of the valuation of investments.\footnote{200 The description that follows is derived from LIAA (1962).} Prior to 1907, the valuation of investments held by life insurance companies did not play an important role in insurance regulation. There was little statutory guidance for the commissioners and the companies, and the commissioners assented in the use of market prices for both debt securities and shares for prudential statement purposes. Loans guaranteed by mortgages were reported at book values, and land and buildings at market values. In 1907, the NCIC became concerned about the valuation of investments in connection with the lack of uniformity in the market prices at which different companies were valuing the same securities. After an interim step in 1908, this led, in 1910, to the establishment of the ‘Committee on Valuation of Securities’, assuming responsibilities for price lists, becoming ‘The book of valuations’. In response to the financial crisis in 1907, the commissioners agreed that prices would have to be stabilised for prudential statement purposes. As a result, they introduced a system of average prices in that year. Additionally, under the leadership of the New York superintendent, amortisation for “ample secured” debt securities was introduced in 1909, resulting in a uniform approach by all states in 1921. For non-amortisable securities, a system of average prices was reintroduced during the First World War, until year-end market prices were again adopted in 1922.

\subsection*{4.4.2.4 The 1906 New York insurance act}

The 1906 New York insurance act was the result of a number of developments, which started in the 1820s, when the New York legislature enacted that all companies created since then should submit annual reports to the ‘State Comptroller’.\footnote{201 Zartman (1906), p. 146-166. According to Meier (1988), such corporations included property-casualty insurance companies.} In 1849, the first general incorporation act for insurance companies was adopted, prescribing how much share capital should be issued and in which category of assets the proceeds should be invested. This act was amended almost on an annual basis until 1875, and included specific sections regarding general topics, fire insurance companies, marine insurance companies, and life, health and casualty insurance companies.\footnote{202 Hine (1876), p. 528-622.}

The regulations regarding general topics, for the first time introduced in 1859, detailed the jurisdiction of the ‘Superintendent of the Insurance Department’, the chief officer of the department.
According to the 1859 act, the superintendent “shall have the power to refuse admission to any company, corporation of association, applying to be permitted to transact the business of insurance in this state from any other state or country, whenever upon examination, the capital stock of such a company, corporation or association would be impaired, and, also, whenever, in his judgment, such a refusal to admit would best promote the interest of the people of this state.”

The regulations for specific types of insurance companies dealt with required solvency margins, dividend restrictions, and reporting requirements: annually, a balance sheet and a profit and loss account had to be filed with the superintendent in accordance with prescribed models.

However, this legislation did not prevent wide-scale abuse in the insurance industry, as was noted in the report of a legislative insurance investigation committee in 1905, commonly known as the ‘Armstrong committee’, named after its chairman, Senator Armstrong. The committee was installed in response to scandals involving, in particular, the ‘The Equitable Life Assurance Society of the United States’ (henceforth, called the ‘US Equitable’, to differentiate this company from the British company, described earlier). The report of the committee noted that the office of the insurance superintendent had been political, often in the worst sense of the word, and inadequate, while it was the official supervisor of a group of companies transacting nearly one-half of the life underwriting of the country, and including the four largest life companies in the world (the ‘New York Life’, the ‘Mutual Life’, the US Equitable, and the ‘Metropolitan’). Furthermore, the New York City companies had all been guilty of a number of abuses, including extravagant expenses and commissions, vague and false accounting entries, defective annual reports, perjury, and rare and improper examinations by the state insurance department.

To correct these evils, the Armstrong committee proposed an extensive revision of the life insurance code of New York. Most suggested amendments were adopted by the legislature, with occasional modifications, in April 1906. The amendments referred to the fiduciary relations of the companies (directors, publicity and investments) and to underwriting practices (policies, valuation, limitation of expenses, limitation of new business, contingency reserve (surplus) and dividends). The act covered all types of insurance business, with special provisions for life insurance companies. It included definitions of insurance business, provisions regarding scope, investment, underwriting and expense requirements and limitations, reporting requirements, and a prescribed set of accounting principles, which was, in a way, the predecessor for the later set of ‘statutory accounting principles’ issued by the NAIC. Furthermore, it defined the role and powers of the superintendent of insurance. Regarding scope, the act was applicable to insurers active in the state of New York, independent of whether they were incorporated in that state or in another state or foreign countries. The superintendent of insurance examined the business and affairs of every insurance company doing business in the state, and of its assets, books, accounts and general condition. A foreign insurance company could transact in the state only such kind of business as, under the legislation of the state, a like domestic insurance company was authorised to transact.

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203 Price (1909).
204 Hamilton (1906).
205 See section 5.4.1.7.
206 The last two categories were jointly called ‘foreign companies’. A company incorporated in the State of New York was called a ‘domestic company’.
The rules regarding foreign life insurance companies were further expanded as the result of an initiative, in 1907, by the New York deputy superintendent Henry Appleton. He formulated an administrative rule (the ‘Appleton Rule’) that prohibited foreign life insurance companies from conducting business in New York unless they substantially complied with New York legislation, not only in New York but also in all other states in which they did business.

Because the New York market was large, few major insurance companies were willing to forego that market. The result of the Appleton rule was that most insurance contracts were regulated by New York legislation in every state. The rule was affirmed by the Supreme Court and, eventually, included in the state insurance code. As a result, New York was the superregulator of the insurance industry.

The 1906 act also included specific requirements on and limitations of investments, in particular regarding the investments of capital and surplus. On underwriting requirements and limitations, the act provided a general ceiling to the activities of non-life insurance companies, depending on their level of capital and retained earnings. The limitations for life insurance companies depended on the existing insurance portfolio, which could not grow above a specified percentage. In my view, these limitations can be considered as a kind of required solvency margins. Furthermore, standard forms of policies were introduced for specified life insurance business, and expenses were limited by relations with the surcharges in the premiums and by absolute amounts in respect of salaries of officers and agents.

The act also included reporting requirements. Every company, engaged wholly or in part in the transaction of insurance business in the state, should annually file in the office of the superintendent of insurance a statement, showing its condition at the end of each calendar year, which should be in such a form and contain such matters as the superintendent prescribed. Relief was provided for foreign companies: their reports should only contain a statement of the business done and assets held within the US for the protection of all policyholders residing within the US, and should not contain any statement in regards to their assets and business elsewhere.

Finally, several articles of the act focused on accounting principles, mainly on the technical provisions. Regarding investments, there was only one article, which prohibited shares to be valued above their market value. The requirements on technical provisions, only prescribed in respect of life insurance and health insurance companies, were quite detailed and focused on the actuarial methods and parameters (mortality tables and discount rates) applied by the superintendent in his annual valuations of the provisions. Soon after the adoption of the 1906 act, however, amendments were made in 1909 to include accounting principles for investments. The amendments, applicable to the statements for 1909, were further clarified in two brochures issued by the New York insurance department, both focusing on the requirement to use amortised cost for debt securities.

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207 Meier (1988).
209 Regarding the discount rate, Price (1909) noted that, prior to 1906, many companies calculated their provisions at 4%. Subsequently, they decreased this rate to 3.5% and later to 3%.
210 NYID (1909a) and NYID (1909b).
4.4.2.5 Summary and conclusions

The description presented in this section makes it clear that, in the period reviewed, it is difficult to discuss the US supervisory system of insurance companies as if there was one fully-harmonised approach covering the whole country. On the contrary, it shows that insurance supervision was organised at state level.

At the same time, a need for harmonisation between the states was recognised, resulting in the incorporation of the NAIC in 1871. However, in the period reviewed in this chapter this goal was only achieved in the area of investments, where the NAIC started producing mandatory valuation rules in 1907.

The description also shows that the insurance department of New York took, starting in 1859, the lead in a large number of supervisory areas, with other states following sooner or later. The activities all focused on increasing consumer protection, specifying required solvency margins, the nature of the investments, and the adequacy of the technical provisions. With respect to life insurance companies, these technical provisions were assessed by the superintendent every five years, using prescribed interest rates and mortality tables. However, particularly in this part of the insurance industry, a number of scandals occurred in the beginning of the 20th century, resulting in very stringent legislation introduced in 1906. Under this new act, strict regulations were applicable to investments, underwriting conditions (including standard policy forms), and expenses. Additionally, expanded reporting requirements to the supervisor (but not to the public at large) were introduced, as well as a prescribed set of accounting principles and revised required solvency margins. The requirements were applicable to all life insurance companies active in the state of New York, but, through a special rule introduced by the superintendent in 1907, effective throughout the country. One of the major innovations in the new legislation was the annual assessment of the adequacy of the technical provisions, instead of the five-yearly cycle under the old act.

Compared to the UK, insurance supervision in the US started earlier, but was also, as a result of the prominent role of the New York insurance supervisor, more active and strict.

4.4.3 Prudential reporting developments in the Netherlands

4.4.3.1 Introduction

This section describes the Dutch prudential reporting developments. To put these in their historical perspective, it starts with an overview of the ‘Koninklijke Besluiten’ (the ‘Royal Decrees’) issued in the first half of the 19th century, requiring advance Royal approval of all Dutch organisations active in the area of life insurance, independent of their legal form. Subsequently, it explains a decision by the Supreme Court in 1880, which ruled these Decrees unconstitutional and created a large vacuum in the supervisory system. This triggered the establishment of several advisory committees, installed by the government in the last decades of the 19th century, to advice on a system of life insurance supervision. For non-life insurers, the 1880 decision had no impact, since they had not been subject to insurance supervision and would be only from the mid-1960s onwards. Additionally, none of the proposals presented in this section made reference to this part of the insurance industry.
The section continues with an overview of several initiatives by the life insurance industry itself between 1900 and 1910, attempting to take its fate more in its own hands, by developing proposals for such supervisory systems. However, the description of a government bill issued in 1912 shows that these industry proposals were almost completely ignored, resulting in a new period of delay until 1920, when another committee was installed to resolve the deadlock situation.

Most of the proposals developed after 1880 were based on the UK ‘freedom with publicity’ approach, described earlier in this chapter, but adapted for the Dutch environment. At the same time, none of the reports made reference to the 1838 commercial code or the failed attempts to improve it, as is described earlier in the section on the Dutch financial reporting developments: any form of consideration of a single-track reporting approach was completely absent.

But even before the work of the 1920 committee was finalised, the fall of the largest two life insurers on the Dutch market forced the government to accelerate and intensify its efforts urgently, to address the vulnerable position of the policyholders of these companies. This resulted in an emergency act and, shortly after, the life insurance business act of 1922. As usual, the section ends with a summary and an overview of my conclusions.

To provide the readers of this dissertation with a quick sense of the developments in respect of reporting formats, the models for the balance sheet and the profit and loss account in the beginning and at the end of the period described in this chapter are reproduced from the comprehensive overview of recommended and mandatory reporting formats in annex 9.

4.4.3.2 Life insurance supervision before 1880

The early developments regarding life insurance supervision were extensively described by Boshuizen.\(^{211}\) He noted that the first initiatives regarding life insurance supervision were taken by Napoleon Bonaparte, during the French occupation of the Netherlands in the early part of the 19\(^{th}\) century. He issued two ‘Imperial Decrees’, in 1809 and 1810, both intended to address abuses occurring in the field of so-called ‘tontine’ insurance (a special kind of annuity insurance). Under these regulations, organisations issuing tontines required government authorisation to carry on such business. Additionally, all joint stock companies (including life insurance companies) required authorisation to be established, based on the Code de commerce of 1807.

The first specific Dutch legislation regarding life insurers was the Royal Decree of 16 July 1830.\(^{212}\) It referred to the French Decrees of 1809 and 1810 and ruled that Royal authorisation was required to establish companies active in life insurance, annuities, tontines, widow and orphan funds, or any other business inviting the public to deposit money to insure pensions or other benefits related to death of one or more contributors. This requirement was applicable to all companies, independent of their legal form: it focused on the activities of the companies. This was an important difference with the Dutch commercial code (part of the financial reporting requirements), which focused on the legal form only. The Decree did not include any specific requirements to be met by applicants, except that ‘required calculations’ should be provided. Existing companies should submit their request to be authorised before 1 January 1831.


\(^{212}\) Secretaris van Staat (1830b), Staatsblad 1930, nr. 41.
Gales noted that the main concern of the government was to establish prudent mortality tables and discount rates (these assumptions fell under the ‘required calculations’), and that the surcharge for expenses was excluded, although companies were warned informally that they should not set the premiums too high, in order to prevent excessive profits made at the expense of the policyholders.  

Van der Valk noted that the Decree of 1830 was the result of the fall of a substantial number of widows and orphans societies near the end of the 1820s. This could explain, in my view, why all developments in this period focused on life insurers: they were, starting with the Decrees presented next, triggered by the financial difficulties that the predecessors of the life insurance companies had experienced. However, I have not been able to find evidence supporting this presumption.

The lack of clarity in the Decree of 1830 caused numerous implementation problems in practice. This was solved by a new Decree, issued in 1833, which included a detailed list of conditions to be met before authorisation was given. The most important elements were:

- The ‘required calculations’ concerned the calculations of the premium and benefit rates;
- Directors had to prepare and provide to the existing policyholders a “rekening en verantwoording” (revenue account) showing the condition of the company; and
- Directors had to prepare and provide to the existing policyholders every five years an extensive balance sheet, in accordance with the “juiste theorie van berekening” (appropriate calculation theory), to disclose the “ware” (true) financial position of the company “volledig” (in a comprehensive way).

This requirement meant that the life insurance industry was one of the first that was subject to certain publication requirements in the Netherlands, even before, as is described by Camfferman, the railway companies for which this started in the 1840s. On the other hand, the requirements for life insurers focused on existing policyholders, and not to prospective ones or the public at large. In contrast, the publication by the railway companies had to be done in the Staatscourant (the legal publication series issued by the government), making the information available to all interested persons and parties. In this sense, both requirements were not fully comparable.

For insurers in the legal form of joint stock companies, the conditions in the 1833 Decree created a further difference with the commercial code, which did neither request ‘required calculations’ nor annual or five-yearly reports to external parties such as policyholders. The requirements were not applicable to health insurance organisations and funeral funds, and to local organisations providing only coverage for certain professions or businesses in that community.

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215 Secretaris van Staat (1833a), Staatsblad 1833, nr. 15. 
216 Camfferman (2000).
On 16 July 1840, three new Decrees were approved. The first dealt with mutual insurance companies, requiring a minimum number of members before business could be started. The other two published lists of companies, which had or had not received the authorisation required by the Decree of 1830. The final Decree regarding authorisation of life insurance companies was approved at the end of 1845. It expanded the scope of the earlier Decrees to companies carrying on deferred annuity business. This Decree completed the Dutch regulatory regime for insurance companies before 1880, as far as such Decrees were concerned.

However, the government did issue, in 1864, a circular, requiring the use of specific government-issued mortality tables (published in 1856) and discount rates (maximum three per cent for annuity business, and four per cent for other business). Furthermore, it prohibited the use of foreign-based mortality tables and required that the assumptions used in the approved premium rates were also used in calculating the life insurance provision. In this respect, the Dutch prudential requirements for life insurers preceded those in the UK, where, as is described earlier in this chapter, the first requirements were only introduced in 1870.

The authorisation requirements, included in the Royal Decrees, were contested several times, even at the level of the Supreme Court, which, for example, ruled in 1853 that the King, by issuing Royal Decrees, was legally authorised to prohibit the establishment of insurance companies without authorisation, and ruled in 1857 that unauthorised companies were not allowed to exist or be active. However, this view changed dramatically in 1880, as is described in the next section.

In the meantime, the government tried to resolve the debates raised in the courts during the 1850s. In the beginning of the 1870, the Department of the Minister of the Interior prepared a draft Royal Decree to withdraw the existing life insurance Decrees. In the spirit of contemporary liberalism, it proposed to leave insurance to the normal market forces and the own responsibility of the public. However, as a result of resistance of the Department of the Minister of Justice, these proposals were never converted into final legislative provisions. As a result, the Decrees issued in the first half of the 19th century were still in force at the time of the Supreme Court decision of 1880, presented next.

### 4.4.3.3 The Supreme Court decision of 1880

In a ruling issued on 12 April 1880, the Supreme Court completely changed the position it had taken in earlier court cases on the authority of the King to issue Royal Decrees, which prohibited the establishment and operations of insurance companies without authorisation. It now ruled that, under the Constitution of 1815, only the government (i.e. not the King) was authorised to create such laws or regulations, and that the King could also not have derived his power on these issues from the French Decrees issued in the early 19th century, since these Decrees concerned companies of another nature (tontines) than those subject to the Dutch Decrees.

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217 Secretaris van Staat (1840a), Staatsblad 1840, nr. 41.
218 Secretaris van Staat (1840b), Staatsblad 1840, nr. 42, and Secretaris van Staat (1840c), Staatsblad 1840, nr. 43. The lists did not include any predecessors of AEGON, Fortis or ING.
219 Minister van Binnenlandse Zaken (1845), Staatsblad 1845, nr. 69.
221 van Haaften (1926).
225 Ibid, p. 159-161.
This ruling completely removed the supervision of Dutch life insurance companies and created commotion in the government: suddenly, existing regulations lacked legal force. At the same time, the domestic life insurance industry very much welcomed the new situation, since it created a level playing field with foreign insurers, which had not been subject to the Royal Decrees. The government realised that a new legal framework had to be developed. In 1883, it appointed a committee to “educate the government on a legal regulation concerning the establishments of life insurance”, although it continued to argue that, as a first step, the existing problems regarding joint stock companies, covered by the commercial code, had to be resolved.

As is explained when describing the Dutch financial reporting developments, these problems concerned the abolishment of Royal authorisation for the incorporation of such companies in exchange for expanded publication requirements.

4.4.3.4 The 1885 report of the ‘van Reesema committee’
This government advisory committee was installed by Royal Decree on 4 October 1883 and consisted of three members. The chairman was W.J. van Reesema Sr., the managing director of the Nationale, one of the predecessors of ING. The committee finalised its report on 15 May 1885, which was published in 1887.

The report made abundantly clear that there were fundamental differences between the three members on the direction any future legislation should take. The different views, and the underlying arguments and counterarguments, were clearly presented and showed the full spectrum, varying from prescriptive government rules on minimum premium rates to complete freedom of operations, without any form of government influence. After long deliberations, the committee could be unified by building on the principles of the UK life assurance act 1870 (described earlier in this chapter), i.e. on the principle of ‘freedom with publicity’. The report made no reference to legal developments in other countries.

Under the proposed approach, any form of advance authorisation (as included in the abolished Royal Decrees) or retrospective supervision was absent. Instead, the overriding mechanism was that every life insurance company had to publish the following schedules:

- On an annual basis:
  - A “rekening en verantwoording” (revenue account), which effectively was similar to a fund statement, showing total assets at the beginning of the year, inflows and outflows, and total assets at the end of the year;
  - A balance sheet, which, however, did not require an annual calculation of the life insurance provision;
  - An “opslagrekening” (surcharge account), showing the comparison between gross and net premiums; and
  - An overview of securities, showing the face value and the market value;

And:

226 Minister van Binnenlandse Zaken (1883), Staatsblad 1883, nr. 32.
227 See section 3.4.3.
228 Commissie van Reesema (1885).
• On a five-yearly basis:
  o The above revenue account over such a period, which was the maximum period over which the calculation of the life insurance provision could be postponed;
  o The ‘five-yearly’ balance sheet, which was effectively the balance sheet at the end of this period, including the life insurance provision; and
  o The cumulative surcharge account.

In case a company chose to calculate its life insurance provision more frequently, the five-year period had to be adjusted accordingly. The proposals were presented in the form of a draft bill, with the schedules attached as annexes. Although the proposals showed considerable similarity with the existing UK legislation, two important differences should be noted: there was nothing similar to the Board of Trade, and there were no deposit requirements. The proposed models for the annual balance sheet and revenue account are presented in the following tables.\(^{229}\)

Table 4.2: \textit{van Reesema committee of 1885 – model 2: annual balance sheet for life insurance companies}

<table>
<thead>
<tr>
<th>Debit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribed capital unpaid</td>
<td></td>
</tr>
<tr>
<td>Securities</td>
<td></td>
</tr>
<tr>
<td>Loans guaranteed by mortgages</td>
<td></td>
</tr>
<tr>
<td>Policy loans</td>
<td></td>
</tr>
<tr>
<td>Other loans and continuations</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
</tr>
<tr>
<td>Land and buildings</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous debtors</td>
<td></td>
</tr>
<tr>
<td>Cashiers and banks</td>
<td></td>
</tr>
<tr>
<td>Office cash</td>
<td></td>
</tr>
<tr>
<td>Other assets (to be specified)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td></td>
</tr>
<tr>
<td>Shareholders’ capital</td>
<td></td>
</tr>
<tr>
<td>Balance at the end of the year as per the first model</td>
<td></td>
</tr>
<tr>
<td>Unpaid claims</td>
<td></td>
</tr>
<tr>
<td>Unpaid distributions</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous creditors</td>
<td></td>
</tr>
<tr>
<td>Distributions</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.54.

\(^{229}\) The full set of proposed annual schedules is reproduced in tables A9.52 to A9.56.
Table 4.3: van Reesema committee of 1885 – model 1: annual revenue account for life insurance companies

<table>
<thead>
<tr>
<th>Debit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims at death</td>
<td></td>
</tr>
<tr>
<td>- Received from reinsurance</td>
<td></td>
</tr>
<tr>
<td>Claims at expiration</td>
<td></td>
</tr>
<tr>
<td>- Received from reinsurance</td>
<td></td>
</tr>
<tr>
<td>Annuity claims</td>
<td></td>
</tr>
<tr>
<td>- Received from reinsurance</td>
<td></td>
</tr>
<tr>
<td>Premium refunds</td>
<td></td>
</tr>
<tr>
<td>- Received from reinsurance</td>
<td></td>
</tr>
<tr>
<td>Surrenders</td>
<td></td>
</tr>
<tr>
<td>- Received from reinsurance</td>
<td></td>
</tr>
<tr>
<td>Reinsurance premiums paid</td>
<td></td>
</tr>
<tr>
<td>Costs of medical examinations</td>
<td></td>
</tr>
<tr>
<td>Commissions and collector fees</td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td></td>
</tr>
<tr>
<td>Office expenses, advertisement cost, printing, etc.</td>
<td></td>
</tr>
<tr>
<td>Supervision, expansion and travel expenses</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
</tr>
<tr>
<td>Losses on assets</td>
<td></td>
</tr>
<tr>
<td>Distributions</td>
<td></td>
</tr>
<tr>
<td>Sundry charges</td>
<td></td>
</tr>
<tr>
<td>Amount of assets at the end of the year</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of assets at the beginning of the year</td>
<td></td>
</tr>
<tr>
<td>Total premiums</td>
<td></td>
</tr>
<tr>
<td>- Single premiums</td>
<td></td>
</tr>
<tr>
<td>- Regular premiums</td>
<td></td>
</tr>
<tr>
<td>- Extra premiums</td>
<td></td>
</tr>
<tr>
<td>Total interest income</td>
<td></td>
</tr>
<tr>
<td>- Interest income on loans guaranteed by mortgages</td>
<td></td>
</tr>
<tr>
<td>- Interest income on securities</td>
<td></td>
</tr>
<tr>
<td>- Interest income on policy loans</td>
<td></td>
</tr>
<tr>
<td>- Interest income on sundry assets</td>
<td></td>
</tr>
<tr>
<td>Profits on securities and assets</td>
<td></td>
</tr>
<tr>
<td>Sundry income</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.52.

The recommendations by the committee represented the view of many who were involved in the debate on insurance company legislation. One particular proponent of a system based on the existing UK legislation was D.J.A. Samot. He was the mathematician of the Nationale and a fellow of the UK Institute of Actuaries. He had already argued in favour of such an approach in 1879 (so before the 1880 ruling of the Supreme Court). Samot (1879), p. 449-467. His plea was repeated in 1884, while the committee was working on its report. Samot (1884), p. 378-401.
The report of the committee was discussed extensively during a two-day meeting of the 'Nederlandsche Juristen-Vereeniging' (the 'Dutch Lawyers Society') in the same year. According to an article in the insurance press, there was general consensus among the participants on the need for legislation of life insurance companies, including funeral funds, and the need to require such companies to publish all particulars of their business, but views differed from those of the committee in respect of further requirements, for instance regarding deposits (an early form of a required solvency margin, as in the UK), minimum premium rates, and the establishment of some kind of state supervisory department. Similar opinions were expressed by the insurance press in the period May-August 1884.

Soon after the publication of the committee report, an event occurred that would have a large impact on the future discussions on insurance company legislation. It was the establishment of the 'Vereeniging voor Levensverzekering' (henceforth, the 'Society for Life insurance' or the 'Society') in 1887. The initiative was taken by M. Henriquez Pimentel. At his invitation, 19 representatives of Dutch life insurance companies met on 5 March 1887 to establish the ‘Syndicaat van directeuren van Nederlandsche levensverzekerings-maatschappijen’ (the ‘Syndicate of directors of Dutch life insurance companies’). Participants included, among others, the Eigen Hulp, the Eerste Nederlandsche and the Utrecht. A representative of the Nationale was not able to participate, but had indicated his interest in the initiative. The objective of the meeting was to discuss possibilities for cooperation in areas of mutual interest, without limiting the business freedom of individual companies. Such areas could be the ongoing government discussions on insurance supervision and publication of financial information, the choice of mortality tables, mutual reinsurance, the level of commissions to intermediaries, and the level of additional premiums for the perils of war. After having rejected similar proposals in October 1884, the group now decided to establish a syndicate or society to discuss such topics and formulate common views. Following up the meeting on 5 March 1887, the Society was incorporated in May 1887. After the adoption of the life insurance business act in 1922, the Society merged with two other industry organisations to become the ‘Nederlandsche Vereeniging ter Bevordering van het Levensverzekeringwezen’ (the ‘Dutch Society for the Promotion of Life insurance business’, henceforth, the ‘NVBL’).

The report of the van Reesema committee was briefly discussed in the insurance press, but in particular in an article published in 1888 by P. van Geer, a Leiden professor and a member of the supervisory board of the Algemeene, responsible for supervising the mathematical calculations, in a general academic magazine. Although he, generally, supported the proposals based on the prevailing UK legislation, he considered several parts not going far enough.

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232 Nederlandsche Juristen-Vereeniging (1884a) and Nederlandsche Juristen-Vereeniging (1884b).
233 Verzekeringsbode (1884b).
234 Henriquez Pimentel (1884a), Simons (1884a), Verzekeringsbode (1884a), Simons (1884b), Henriquez Pimentel (1884b), and Landré (1884).
235 Henriquez Pimentel was, at the time, the government advisor for life insurance. See Verbond/NEHA (2000), volume III, p. 91.
236 The first two companies were predecessors of AEGON; the last was a predecessor of Fortis. See sections 3.2.2, 3.2.3, and 3.3.2, respectively.
238 Verzekeringsbode (1887b), p. 267.
239 Niemeijer (1966).
240 Henriquez Pimentel (1887), Henriquez Pimentel (1888), and De Algemeene (1888).
241 van Geer (1888), p. 71-120.
For instance, van Geer supported the rejection of prescribed mortality rates, but considered the proposed schedules incomplete, since they would provide insufficient information to form an appropriate opinion on the reserving methods applied by the reporting insurance company. He also doubted whether the proposals would be suitable for funeral funds, and advocated separate legislation instead.

Quite another response to the committee report came from the Society. Its views were presented in the 1888 annual report of the Nationale and subsequently quoted in the insurance press. According to this annual report, the Society supported, in majority, “openbaarheid in de meest volledige vorm” (publicity in its most comprehensive form), but also the creation of a government committee to establish a system of light supervision of insurance companies. The management board of the Nationale, headed by van Reesema Sr., strongly disagreed with the creation of such a government committee and endorsed the proposals in the 1885 report of the van Reesema committee. However, soon after it became clear that this view was certainly not shared by Henriquez Pimentel, who fully supported the position of the Society.

Another contribution to the debate on the committee report was made by A.L.C. Pabst in his dissertation, published in 1889. He advocated a combination of preventive and repressive supervision. Regarding the first part, he considered it necessary to have advance approval of the articles of association as well as the premium rates, combined with the extensive publication of financial data and a requirement to keep separate accounts for life insurance activities. On the repressive side, he recommended a state-organised expert group to check compliance with regulations, and the power to investigate the books of the company and to assess proper investments of insured capital.

The final comments on the recommendations of the van Reesema committee were included in a report, dedicated to funeral funds in the Netherlands. It was issued in 1891 by a committee, installed by the ‘Maatschappij tot Nut van ’t Algemeen’, and chaired by L.P.A. Molengraaff, a professor in law in Utrecht (the Netherlands). In contrast to the recommendations of the van Reesema committee and of the Society, this (first) ‘Molengraaff committee’ proposed separate legislation for all funeral funds, based on the UK legislation for friendly societies, mentioned earlier in this chapter. According to the report, there were 433 institutions involved, in one way or another, in funeral insurance business at the end of 1890. Of this total, about 45% were exclusively active in providing funeral insurance to private customers, and about 40% combined this with health insurance for the same target group. About 11% of the institutions served the employees in specific industries. The activities of the remaining 4% of funeral funds were unknown. Regarding the legal structure, the majority of the institutions were mutual insurance companies.

The publication of the committee report triggered a discussion in the Second Chamber in 1887, when its member I.A. Levy, a lawyer, noted that “life insurance companies were in a state of anarchy” and asked the Minister of Justice when this situation would be addressed.

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243 Verzekeringsbode (1889b), p. 349-351.
244 Pabst (1889).
245 Nut van ’t Algemeen (1891).
246 Tweede Kamer (1887), Handelingen 8 december 1887, p. 398-408.
The Minister responded that it was the responsibility of the Minister of the Interior and that this department was dealing with the issue. In response, Levy complained that “almost every important topic is under consideration or in progress”, and he expressed the hope that a government bill would be sent to Parliament soon. A similar exchange of positions occurred in the First Chamber. However, no further action by the government was initiated.

4.4.3.5 The 1897 report of the 'Molengraaff committee'
To follow-up on these findings of the private (first) Molengraaff committee, the government appointed an advisory committee in 1892 to advise on future legislation for funeral funds. At the committee’s request, its assignment was expanded in 1895 to include all life insurance business. The reasons for this expansion were presented in its final report, described hereafter. The committee was, at the time it issued its report, chaired by Molengraaff and included four other members, one having served on the first Molengraaff committee, and one other being van Geer, whose views on the actual reporting practices of life insurers are presented when describing the reporting practices and layouts of Dutch insurers. The report was finalised on 27 February 1897.

The report included a draft bill, supported by a draft explanatory memorandum. The main provisions were as follows:

- Life insurance business could only be carried on by incorporated institutions, which were not allowed to carry on any other businesses. Each life insurance company required a certain minimum capital (in other words, a required solvency margin);
- Incorporation should be achieved in accordance with the normal legal provisions. For joint stock companies, this was in accordance with the commercial code. For mutual insurance companies, the draft bill included specific provisions, since this legal form was not adequately addressed in Dutch legislation;
- A balance sheet and a profit and loss account should be prepared and published annually, in accordance with specific models to be prescribed by a ‘Commission’. The report gave no proposals for such models, although it did specify which items should be presented separately, in particular regarding the investments and the life insurance provision. Additionally, management should prepare an annual report, again in accordance with a specific model, which requested particular details for several items of the balance sheet and the profit and loss account, including the valuation bases, as well as details underlying the life insurance provision;
- At least every five years, the company should measure its life insurance provision on a “wetenschappelijke” (scientific) basis, the result of which should be included in the balance sheet;

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247 Eerste Kamer (1888), Handelingen, 18 januari 1888, p. 161-164.
248 Ministerie van Binnenlandse Zaken (1892), Staatscourant 1892, nr. 81.
249 Ministerie van Binnenlandse Zaken (1895), Staatscourant 1895, nr. 7.
250 Commissie Molengraaff (1897).
251 There was no reference to the report of the Kist committee issued in 1890, which already included similar recommendations, as is described in the section on the Dutch financial reporting developments. This is surprising, since Molengraaff was a member of this committee.
• The Department of the Minister of the Interior should establish a bureau, headed by the Commission, which should supervise life insurance companies and ensure compliance with the provisions of the act. The name would be the ‘Bureau voor levensverzekering’ (the ‘Life insurance bureau’, henceforth, the ‘Bureau’). The five members of the Bureau were appointed by the Minister of the Interior. Every life insurance company had to submit to the Bureau its articles of incorporation, its articles of association, and its internal regulations, as well as any changes therein. Furthermore, it should submit its policy conditions, premium rates, and the technical assumptions underlying the calculations of the life insurance provision, including all changes therein. The balance sheet, profit and loss account, and management report should be submitted annually. Finally, management had to provide the Bureau with all information it should request;

• In case the managing director of the Bureau was of the opinion that the business of the company was not based on sound assumptions, irregularities occurred, or the financial management was insufficient for meeting the liabilities, he notified the Commission. If the Commission supported these view, it would notify the insurer and could mandate resolving measures. If the insurer had not rectified the problems within one year, the Commission could request the court to investigate the matter and, if necessary, to dissolve the company;

• Special provisions were included for life insurers that limited their activities to insuring small amounts (i.e. industrial assurance business); and

• Separate provisions were included for foreign insurers, effectively putting them on equal footing with domestic insurers for their Dutch business.

The explanatory memorandum clarified that the committee, as requested, initially tried to draft specific legislation for funeral funds. However, since the business of these institutions, in nature, did not differ fundamentally from that of life insurers, it was unable to achieve this goal without addressing the issues of life insurance supervision. Therefore, the committee proposed to include funeral funds in the system of life insurance legislation, albeit with a number of alleviations. This approach was again based on UK legislation regarding friendly societies, mentioned earlier in this chapter.

In developing its proposals, the committee studied the legislative systems in a number of European countries, including Austria, Belgium, France, Germany, Hungary, Italy, Luxembourg, Romania, Sweden, Switzerland, and the UK, but also in the US.

The committee noted that a large number of these systems were based on an approach of supervision combined with strict regulations on how a life insurer should be managed and which premium rates should be applied. The committee considered these proposals to be overprescriptive, limiting the necessary freedom of business, and therefore rejected such an approach. Instead, it based its proposals on the UK legislation, in particular the principle of ‘freedom with publicity’ included in the 1870 life assurance act, but amended for the Dutch environment. According to the committee, the Dutch public was less educated than the British regarding life insurance, and it was, therefore, unrealistic to expect the policyholders to be able to assess the annual accounts of life insurers independently and objectively. For this reason, the committee proposed an approach under which ‘freedom with publicity’ was combined with state-organised retrospective insurance supervision.
An annex to the explanatory memorandum showed that this retrospective supervisory component of the draft bill was strongly rejected by the member van Geer, who continued to believe that the proposed system of state supervision was not in the interest of the insurers, nor of the policyholders. In particular, he fundamentally disagreed with the possibility to mandate certain measures or request dissolution of the insurance company.

The full provisions of the draft bill, the main parts of the explanatory memorandum, and the dissenting views of van Geer were published in the insurance press.\textsuperscript{252}

The reactions from the insurance industry on the proposals showed that van Geer was not alone. Already during the work of the committee, J. van Schevichaven Jr. published an article in 1895 in which he, using examples from other countries, opposed state supervision.\textsuperscript{253} He was the secretary to the managing board of the Algemeene, at the time the largest life insurance company in the Netherlands, and the son of the managing director, S.R.J. van Schevichaven Sr., whose role in the supervisory discussions is presented in the next subsection. Van Schevichaven Jr. particularly used the “severe” supervisory system in the US described earlier, with its “power in the hand of a single, fallible, person” (i.e. the superintendent) to demonstrate its shortcomings: since insurance supervision was introduced in the US, far over 100 life insurers faced bankruptcy, because just the simple fact of intervention already created a ‘run on the company’ by its policyholders. On the other hand, after the introduction of the UK system of insurance supervision, only five very small companies became insolvent, and nine others could be saved. In his view, these statistics showed the strength of the UK system, which should be adopted without additional elements of supervision.

According to Boshuizen, the proposals met fierce resistance from the insurance industry because of the proposals regarding supervision.\textsuperscript{254} However, this statement could not be directly evidenced by my search for comments during the second half of the 1890s in the famous insurance library of the former Utrecht.\textsuperscript{255} What the library did show was that it was in particular the Algemeene fighting the battle against the proposals. In several publications, this company repeated in extremely strong words the arguments it, through the article of van Schevichaven Jr., had presented in 1895.

The Algemeene remained in full favour of the UK system, and against any form of repressive insurance supervision. It also accused the committee of modelling its proposals too much in favour of mutual insurance companies, in particular using the existing policies and procedures of the Eigen Hulp as a best practice: Molengraaff and one member of the committee were both involved in the activities of this company.\textsuperscript{256} The library also revealed a brochure, issued by Ingenegeren, supporting the resistance against insurance supervision, but in much more balanced wordings: he supported the establishment of the Bureau, but allocated a much heavier preventive task to this new organisation, instead of giving it (also) repressive powers.\textsuperscript{257}

\textsuperscript{252} van Geer (1897a), van Geer (1897b), van Geer (1897c), van Geer (1897d), and van Geer (1897e).
\textsuperscript{253} van Schevichaven Jr. (1895), p. 253-289.
\textsuperscript{254} Boshuizen (2001), p. 163.
\textsuperscript{255} This library was started in 1870 by W.P. Ingenegeren, the founder of the Utrecht (the predecessor of Fortis, see section 3.3.2), and included a unique old and almost complete collection of insurance publications. Its history and collection was described in De Verzekeringsbode (see Hommes (1952)). Although it still was a private collection at the time of my research, it was accessible for everyone with an interest in insurance.
\textsuperscript{256} See De Algemeene (1897), van Schevichaven Jr. (1897b), and van Schevichaven Sr. (1897). Eigen Hulp was one of the predecessors of AEGON (see section 3.2.2).
\textsuperscript{257} Ingenegeren (1897), who was, at the time, the managing director of the Utrecht.
On the other hand, more neutral commentators were less opposed to the committee proposals. For instance, Volmer commented that a system of publicity without some form of supervision would be subject to abuse.\footnote{Volmer (1897b).} However, he agreed that the competences of the Bureau were not sufficiently limited to prevent arbitrary actions. Furthermore, although he supported the extensive powers of the Bureau, he rejected the proposal that an investigation should not be based on the potential size of irregularities, but on a suspicion of mismanagement.

The committee proposals were also supported by Henriquez Pimentel.\footnote{Henriquez Pimentel (1898).} After having agreed with the view that, ideally, the existing problems regarding joint stock companies (described in the section on the Dutch financial reporting developments) should be addressed first, he made it clear that he, based on his experience during the last 25 years as an insurance journalist, had changed his mind, from an unrestricted support in favour of full implementation of the system applied in the UK to support for the proposals to combine publicity with supervision. This change was particularly based on his view that, as the committee had argued, the Dutch public was indeed not (yet) capable of understanding the financial information (to be) supplied by life insurance companies, and that this was a fundamental difference between the Netherlands and the UK, at least for the foreseeable future. To compensate for this lack of understanding, some kind of government involvement was required, to protect the interest of policyholders. However, he did recommend that there should be some kind of preapproval of new life insurers and of changes in legal documents and rates, and this approval should be included in a public register and published in the \textit{Staatscourant}. Furthermore, in case advices, recommendations and warnings would not cure the problems in a specific life insurance company, the company should be deleted from the public register, with publication in the \textit{Staatscourant}, followed by dissolution without any involvement from the court.

Soon after the publication of the report, the Second Chamber raised its concerns on the lack of legislation for life insurers again, when it noted that the delays in revising the legislation on joint stock companies caused delays in this matter as well, and expressed the hope that the government was aware of the level of urgency this legislation required.\footnote{Tweede Kamer (1897), Handelingen 29 oktober 1897, bijlage A, p. 2.}

Concerns were expressed again by the First Chamber in 1902, when it stated that state supervision of domestic and foreign life insurers companies was desirable.\footnote{Eerste Kamer (1902), Handelingen 16 januari 1902, p. 81.} However, as before, no government action was initiated.

### 4.4.3.6 The 1900, 1903 and 1910 proposals of the Society for Life insurance

As is already noted, it was not possible to find many publications from the insurance industry itself, issued at the end of the 19th century and arguing against the proposals included in the 1897 report of the Molengraaff committee. One possible reason for this was revealed in 1900: the industry, united in the Society, had decided to try to take its fate in its own hands. A publication issued in 1900 clarified that it had appointed, in a meeting held 30 March 1898, a committee to develop a legal regulation of the life insurance businesses.\footnote{VvL (1900).} The committee was chaired by van Reesema Sr., and included two other members: van Schевichaven Sr. and Ingenegeren. In other words, three managing directors of some of the largest life insurers in the Netherlands.
The Society proposals had to be based on the 1885 report of the van Reesema committee, i.e. the ‘freedom with publicity’ approach without a supervisory authority.

Although the first proposals of this committee, issued to the members of the Society in 1900, had not been made available to the public in general and I have not been able to retrieve them from any archive or library I have visited, they were mentioned in the 1901 annual ‘Jaarboekje’ of the Society.\textsuperscript{263} The author van Schevichaven Jr. disclosed that the members had rejected the proposals of the Molengraaff committee as firmly as possible, continuing their opposition to state supervision. In its proposals, the industry committee recommended an approach based on ‘freedom with publicity’, but combined with regulations regarding the establishment of life insurers, depositing funds at incorporation, separating life insurance business from other activities, and, in particular, a right for policyholders to request an investigation of the life insurer by a court.

According to Boshuizen, the recommendations included 15 models of schedules to be published by the life insurance company.\textsuperscript{264} He also noted that the members of the Society did not support the recommendations of its committee, and that different views continued to exist. This was evidenced by a preliminary advice, prepared by van Schevichaven Sr. for the ‘Vereeniging voor de Staathuishoudkunde en de Statistiek’ (the ‘Society for National economics and Statistics’) in 1900.\textsuperscript{265} He made it clear that he had disagreed on a number of issues with the other members of the committee, did not feel bound by its recommendations, and continued to reject any system of supervision: he still wanted any legislation to be limited to a system of mandatory publication in the form of prescribed schedules, and no more. He also recommended that the government should not establish any specific legislation for insurance companies before it had amended the existing legislation for joint stock companies, referring to the ongoing debate and uncertainty on this topic.

After the members of the Society rejected the first proposal on 26 November 1900, the committee continued its work in the same composition, based on the recommendations and guidance provided in this meeting. It published a revised draft in April 1903.\textsuperscript{266} Compared to the first draft, the proposals regarding policyholders’ inquiries were deleted (based on a majority view), and deposit requirements were withdrawn. The draft bill was accompanied by 15 schedules, including 10 focusing on details underlying the calculation of the life insurance provision.\textsuperscript{267} A.S. van Reesema Jr., the son of the chair of the committee who had succeeded his father as the managing director of the Nationale, explained in 1905 that achieving an agreement on the way forward had become more difficult when van Schevichaven Sr. started rejecting the development of any specific legislation before the problems in generic company legislation were fixed.\textsuperscript{268} This had weakened the earlier proposals of the committee, issued in 1900, already considerably in the meeting of the Society, where these proposals were rejected. However, the main debate had now focused on the contents of the mandatory publication schedules, and the ultimate proposals were the best compromise achievable.

\textsuperscript{264} Boshuizen (2001), p. 163.
\textsuperscript{265} van Schevichaven Sr. (1900).
\textsuperscript{266} VvL (1903).
\textsuperscript{267} The profit and loss account, expenses account, and balance sheet are reproduced in tables A9.58 to A9.60.
\textsuperscript{268} van Reesema Jr. (1905).
Since the members of the Society also rejected the proposed publication of a number of schedules on the details of the life insurance provision in their meeting on 15 December 1903, the committee had concluded that the members did not support the principle of ‘freedom with publicity’, withdrew its new proposals, and laid down its assignment.

In subsequent years, the debate continued. For instance, van Schevichaven Jr. continued his battle, in the usual aggressive style, against any form of state supervision, repeating his arguments (and that of his company, the Algemeene) against such a system and in favour of mandatory publication of financial information only.269 But also individuals and parties who, until then, had not yet participated in the discussion, joined. One of those was the lawyer A.F. de Savornin Lohman Jr., who tried to reactivate the debate in 1908.270 He was a member of the managing board of the ‘Amsterdamsche Maatschappij van Levensverzekering’, in which his father A.F. de Savornin Lohman Sr. (a lawyer and former Minister of the Interior and, at the time, a member of Dutch Parliament) was a member of the supervisory board. De Savornin Lohman Jr. noted that there was, after almost 30 years, still legal uncertainty, caused by the fact that industry members were unable to reach consensus. In his view, the government was not just authorised, but also obliged, to take legal measures as soon as possible regarding life insurance business to protect the interests of existing and future policyholders and of solid companies, and to promote a strong and healthy insurance environment. To achieve these goals, the best way forward, in his view, would be to go back to the proposals in the 1885 report of the van Reesema committee and to develop legislation based on the UK approach.

Another contributor to the debate was van Geer. In 1908, he published an article, in which he, in very strong words, rejected the views of those who wanted to postpone insurance company legislation until other matters, such as the legal requirements regarding joint stock companies, were resolved.271

In van Geer’s view, policyholder protection was needed urgently, given the unacceptable reporting practices by insurance companies under which companies published only what they wanted (if anything at all) and omitted information that was vital to understand the financial position and performance, for instance regarding the adequacy of the technical provisions. Existing regulations, such as the power of the shareholders or the supervisory board, or the involvement of auditors or actuaries, did not work in practice at all, and, generally, a critical insurance press was completely absent. A system of mandatory publication, in the form of prescribed schedules, was required, combined with the establishment of a government agency, which should review applications to incorporate new companies, serve as an institute where policyholders and shareholders could file complaints, and publish its findings on an annual basis.

However, the government still did not seem to take any action, which triggered P.R. Mees, a member of the Second Chamber and also the managing director of the Eerste Rotterdamsche, in 1906 to request the Minister of the Interior not to wait for other important legislation, but to develop legislation based on mandatory publicity, coupled with some system of state supervision.272

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271 van Geer (1908).
272 Tweede Kamer (1906b), Handelingen 12 december 1906, p. 874-876.
Mees repeated this request in 1908, noting significant diversity of reporting practices among life insurers, and demanding urgent action by developing a legislative system of mandatory reporting requirements.\footnote{Tweede Kamer (1908a), Handelingen 30 november 1908, p. 825-826.} He was supported in these views, although sometimes based on different arguments, by several members of other parties. In response to these remarks, the Minister of the Interior stated that work was in progress, but that a government bill could not be expected soon, given other priorities. However, he added that he was happy to note that Parliament seemed to be in favour of a system based on ‘freedom with publicity’, with some limitations but rejecting an approach of severe state supervision, and made it clear he fully supported this approach.\footnote{Tweede Kamer (1908b), Handelingen 1 december 1908, p. 831-837.} He made similar statements in a debate with members of the First Chamber.\footnote{Eerste Kamer (1909), Handelingen 9 februari 1909, p. 369-376.} In none of these debates in Parliament, specific reference was made to any of the 1900 or 1903 proposals of the Society.

In a final attempt to influence and accelerate developments, the Society decided, in December 1908, to establish another committee chaired by L.W.A. Colombijn of the Dordrecht to develop, as soon as possible, a draft for an act on life insurance business.\footnote{As is described in section 3.2.3, the Dordrecht became part of the Ennia in 1919.} In contrast to the past, the committee did not include members of the large life insurance companies, but of three medium-sized companies. One of the members was de Savornin Lohman Jr. The Society subsequently informed the Minister of the Interior on this initiative, who stated his willingness to liaise with the committee when developing legislation. After having discussed an interim report in December 1909, the members of the Society approved a final report almost unanimously in July 1910. This report was subsequently submitted to the government in two parts: the draft bill, including annexes describing insurance supervisory legislation in Denmark, France, Germany, Switzerland, the UK, and the US (New York), and an explanatory memorandum. The description that follows is derived from this report.\footnote{VvL (1910).}

The draft bill included the following provisions:

- The act was applicable to all domestic and foreign companies, carrying on life insurance business in the Netherlands. However, funeral funds which did not provide benefits in cash were exempted;
- Only joint stock companies and mutual insurance companies with a specified amount of minimum capital were allowed;
- A company could not commence business before it had received a license from an ‘Insurance Chamber’. To obtain such a license, a deposit of NLG 100,000 had to be made, returnable only after approval by the Insurance Chamber (as before, I consider this as an early form of a required solvency margin). Furthermore, the company had to file a number of documents, such as its articles of association, policy conditions and rates, arrangements regarding profit sharing with policyholders, and the methods and assumptions to calculate the life insurance provision;
• Annually, the insurance company had to submit to the Insurance Chamber specific returns, the models of which were determined by an Administrative Decree. Part of these returns would also be made available to the public; other parts would be submitted to the Insurance Chamber only. The life insurance provision should be calculated at least every five years, or more frequently if required by the articles of association of the insurer;

• The Insurance Chamber should supervise compliance with this act and its regulations, and verify the returns. It was entitled to carry out on-site inspections, as often as it wished, but at least every ten years, to check the calculation of the life insurance provision in accordance with the published methods and assumptions, to check the valuation of the assets in accordance with published accounting principles, and to verify the presence of securities and other assets. It was authorised to ask all information it considered necessary to perform its tasks, and insurance companies were obliged to respond. It could also issue recommendations, but insurance companies were not obliged to comply. The Insurance Chamber should publish an annual report in accordance with specific provisions in the act;

• In case a life insurance company faced the risk that it could no longer meet its liabilities, the management board, policyholders, or the Insurance Chamber could ask the court to put the company under guardianship;

• The act included specific provisions for companies active in the area of industrial assurance business; and

• Foreign companies were, in respect of their Dutch business, generally subject to the same requirements as domestic companies.

During the development of the proposals, it became clear to the committee that the government was being put under pressure to make urgent progress in respect of life insurance supervision. This pressure came from the Second Chamber in 1909, when M.W.F. Treub, at the time a member of this chamber but subsequently the Minister of Finance, asked for urgent action, based on problems arisen in practice. 278 The Minister responded that he shared the view that something needed to be done urgently, but that he was now waiting for the results of ongoing meetings with representatives of the industry. 279 Commenting on a question raised in the First Chamber, 280 the Minister of Finance stated that the timing was not certain, but that he was convinced that the industry committee was determined to produce results as soon as possible. 281

To address this time pressure, the committee decided to focus on the draft legislation first, and to postpone its work on the reporting schedules. However, it had developed the overall approach for such schedules, which was approved by the members of the Society:

• A first group should provide an overview of the position of the company during and at the end of the year;

• A second group should provide details on the life insurance provision;

• A third group should include information regarding the assets; and

• A fourth group should present models for the profit and loss account and for the balance sheet.

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279 These were the representatives of the Society, working on their new proposals.
280 Eerste Kamer (1910a), Handelingen 20 januari 1910, p. 171.
281 Eerste Kamer (1910b), Handelingen 28 januari 1910, p. 205.
The proposed models were subsequently submitted by the committee to the government in November 1910, as the third part of the report. As proposed in the draft legislation, they were divided in public and non-public schedules, the latter including details for use by the Insurance Chamber only, such as on holders of not fully subscribed shares, land and buildings, loans guaranteed by mortgages, and securities. However, condensed overviews of such details would be part of the public schedules. Overall, the proposals were much more aligned with those proposed in 1885 by the van Reesema committee than in 1897 by the Molengraaff committee. And the proposed distinction between public and non-public schedules removed a lot of the debate within the industry.

Surprisingly, my review of the literature in the period January 1911-April 1912 did not reveal any comments on the proposals of the Society. It seemed as if nothing had happened: the debate between a choice for ‘freedom with publicity’ and some system of state supervision continued, as was demonstrated by an exchange of arguments between P.T. Grinwis (a supporter of state supervision) and van Schevichaven Jr. (the known strong opponent of any form of external supervision who, apparently, had lost the battle within the Society). The explanation for this apparent silence was provided by the lawyer A.W. Wichers in early 1912: the proposals had not been made available to the public and were kept confidential. However, this situation changed in April 1912, when the proposals were sent to the insurance press, asking for comments. The reactions were mixed. W.H.F. Liefrinck-Teupken, the managing director of the Arnhem and chief editor of De Verzekeringsbode, happily noted that, finally, the differences in opinion seemed to be disappearing, and that the proposals were going in the right direction, although she added that, at the time, a lot of companies were already providing more information than was proposed in the schedules.

On the other hand, the auditor J. Bosman noted that the proposals were an unclear blend of the two approaches, long discussed among participants in the debate, with too much power for the Insurance Chamber and too little clarity in respect of the schedules. He noted that, in practice, it would be rather easy to apply different accounting principles using the same terminology, thereby hiding the actual approach and position of the reporting company.

An even more critical series of articles on the proposals appeared in another insurance magazine, De Zonneschijn. Its first reaction was that the proposals should have been extended to cover all branches of insurance, since these should all be subject to legal regulations, and such an approach would have immediately addressed the problems for companies active in life as well as non-life insurance business. Secondly, it noted that no clear choice had been made between the two competing approaches to life insurance legislation: supporters of the ‘freedom with publicity’ system found too little to serve their purposes, and the same applied to supporters of the ‘state supervision’ approach. The proposal was not aligned with the UK ‘freedom with publicity’ system by the creation of the Insurance Chamber, and it was also not an approach based on ‘state supervision’ because of the limitations imposed on the chamber.

The proposed profit and loss account and balance sheet are presented in tables A9.61 and A9.62.

Grinwis and van Schevichaven Jr. (1911).
Verzekeergsboede (1912a).
Bosman (1912).
Zonneschijn (1912).
For a proper implementation of the state supervision approach, De Zonneschijn argued, the role and powers of the Insurance Chamber were too restricted, raising doubts as to whether the committee really wanted such organisation to play a role or was trying to limit its potential influence from the outset. Overall, the editors of the magazine did not consider the proposals to be sufficient, and were afraid that they created confusion, raising new problems instead of providing a solid way forward.

Despite these critical comments in some part of the insurance press, the fact of the matter remained that the Society had delivered a more or less unanimous view on the future direction of life insurance legislation, and it trusted that this would be taken into account when the government developed its first drafts in this area. This is discussed next.

4.4.3.7 The 1912 government bill

After the publication of the proposals of the Society, it would take another two years before a government bill was finally submitted to the Second Chamber. On 27 July 1912, the Minister of the Interior issued such a bill, a set of proposed reporting schedules, and the explanatory memorandum accompanying both documents. This memorandum noted that, with this bill, the Minister had made the choice for the UK system, despite the fact that the Society (although with the smallest possible majority) had voted in favour of a more far-reaching regulation. In other words, the Minister had rejected the Society’s 1910 proposals and, as a result, had developed a considerably different approach. The main provisions of the bill were:

- The act was not applicable to industrial assurance business;
- A deposit should be made (with transitional arrangements for existing companies), returnable when all policies were expired (a required solvency margin approach);
- A life insurer should submit to the Department of the Minister of the Interior, before it started its business (or within three months after the effective date of the act), an overview of the methods and assumptions to calculate the life insurance provision, the policy conditions and the premium rates;
- Starting with the financial year 1916, the insurer should annually submit to the Department, before 1 August, five prescribed schedules. It should also submit an overview of accounting principles for its assets, and, at least every three years, an overview of the calculation of its life insurance provision. The schedules should, at request, be made available to interested parties. The schedules concerned:
  1. An overview of concluded insurance contracts;
  2. A comparison of actual and expected mortality results;
  3. A profit and loss account;
  4. A balance sheet with limited notes; and
  5. A list of shareholders;
- The Department could at all times, and should at least every ten years, carry out a verification of the information included in the schedules; and
- The Department could establish an Insurance Chamber, the powers and activities of which would be included in an Administrative Decree.

288 Tweede Kamer (1912), nr. 307.
289 The models for the profit and loss account and the balance sheet are presented in tables A9.63 and A9.64, respectively.
Because of the approach adopted by the government, the bill was considerably different than what the Society had proposed:

- Industrial assurance business was part of the proposals of the Society, but excluded in the bill;
- Under the bill, the establishment of an Insurance Chamber was optional, where this was a requirement under the Society’s approach;
- The bill proposed that the life insurance provision had to be calculated at least every three years, while this period was five years in the proposals of the Society;
- Compared to the Society’s proposals, the bill required much less information to be submitted at the effective date of the act; and
- The bill had omitted a large number of topics, which were included in the Society’s proposals, including the introduction of specific regulations for mutual insurance companies, minimum capital requirements, portfolio transfers, mergers, and liquidations, appeals and penalties, and additional regulations concerning foreign companies, for which the bill only required the minimum deposit.

As a result, the bill included only 14 articles, compared to the 53 articles in the Society’s proposals, and the number of schedules was decreased from 23 to 5. With this bill, the government proposed much less strict requirements for life insurers than suggested by the industry itself, a situation which, as is described earlier in this chapter when discussing the lack of development of the Dutch financial reporting requirements, was usually the other way around.

The existence of these large differences was not the main focus of analysis in the insurance press. On the contrary, this issue was hardly mentioned, and the editorial comments went in other directions. For instance, De Verzekeringsbode reacted neutrally, limited itself to the remark that the draft went in another direction, and supported the exemption for existing funeral funds.\(^{290}\) In De Zonneschijn, A.M. van Regteren Altena addressed the same issue, but was of the opinion that the draft could have been easily made suitable for funeral funds as well.\(^{291}\) Furthermore, he considered the publication requirements insufficient and warned for too high expectations, given the absence of a clear role for the Insurance Chamber. Overall, he did not expect the draft to be made final without considerable changes.

The most extensive comment on the draft legislation was provided by Het Verzekeringsblad, one of the Dutch insurance magazines.\(^{292}\) The chief editor and journalist W. Wiebes Leemans firstly noted that he had always been a strong supporter of the ‘freedom with publicity’ principle, and had advocated a very simple act, including only two articles: one explaining the methods and assumptions underlying the calculation of the life insurance provision and premiums, and another requiring full details of investments. This was all the public needed to know, any additional information was for professionals only. Secondly, he criticised the lack of proposed legislation for funeral-type of insurance, since it was particularly this area of life insurance business that needed to be regulated. In his view, the proposals would not be difficult to apply to those funds and to companies which were run on a solid basis, and the others needed to be dissolved anyway.

\(^{290}\) Verzekeringsbode (1912b).
\(^{291}\) van Regteren Altena (1913).
\(^{292}\) Verzekeringsblad (1913).
Thirdly, Wiebes Leemans opposed the possibility to establish an Insurance Chamber, since this was, in his view, a first step to an unavoidable form of state supervision, which should be strongly rejected. But his main comments concerned the proposed schedules. If such schedules were required at all (which he doubted), they were completely insufficient and did not serve the purpose. In his experience, companies already provided much more information in practice, there would be ample opportunities to hide the true development of a company and its accounting principles, and the schedules simply did not work in practice. To support his last statement, he referred to three companies, who actually applied the proposed schedules in their annual accounts for the year 1912. One of these was the Nationale, which had stated: “Applying schedules III and IV has convinced us, that they are not suitable to provide a proper view of the developments of the company, since details are asked for often unimportant issues, while these details are not required for much more relevant topics. Furthermore, heterogeneous items are combined and related income and expenses are separated.”

Early 1914, the Second Chamber issued its interim report on the draft legislation.\textsuperscript{293} It showed that a vast majority of members supported the development of legislation for life insurance companies and the choice for a system based on the UK approach of ‘freedom with publicity’. However, this did not mean that they concurred with the proposals. In their view, the government had omitted important elements of UK legislation, and they were surprised that, according to their assessment of the bill, the government had completely ignored the proposals issued by the Society.

The main issues raised by the Second Chamber were the lack of regulation of companies focusing on industrial assurance business and funeral funds, of an appropriate role of the Insurance Chamber, and of sufficient transitional measures for existing companies. Overall, the majority of members held the view that the proposals were insufficient to properly protect policyholders, more use of the proposals of the Society should be considered, a lot of topics should be added, and urgent progress was key.

The publication of the interim report resulted in some comments in the insurance press and in the annual Jaarboekje of the Society, but these articles were mainly a repetition of earlier views, and did not provide new information.

4.4.3.8 The 1920 report of the 'Niemeijer committee'

After the publication of the interim report of the Second Chamber in 1914, developments came temporarily to a halt, as a result of the outbreak of the First World War. However, in 1917, the life insurance industry was shaken up by an attempt, initiated by Treub, at the time the Minister of Finance, to nationalise the industry. The action failed, when a report issued by a special committee showed that his estimates of the annual profits of the companies were overstated about ten times.\textsuperscript{294} As a result, Treub resigned.\textsuperscript{295}

\textsuperscript{293} Tweede Kamer (1914), nr. 54.

\textsuperscript{294} The report of the committee did not include specific information relevant in respect of insurance supervision, but provided an insight into a number of accounting practices for securities at the time. These were presented by de Jongh and are described later in this chapter in the section on the actual reporting practices adopted by the companies reviewed in this dissertation.

Soon after, J.W. Niemeijer, a member of the Second Chamber and the managing director of
the Nationale, asked the Minister of the Interior about the progress in respect of life insurance
legislation and called for the establishment of a new advisory committee to improve the 1912 bill. 296
The Minister responded that he was considering several alternatives, including the appointment
of an individual expert to perform this task. However, a few months later, at 12 February 1919,
he installed an advisory committee, chaired by the same Niemeijer. The committee submitted
its report in November 1920, which was subsequently published in 1921. 297 According to the
introduction in the report, the committee had already early in the process concluded that the
necessary improvements in the 1912 draft were so substantial, that a simple set of amendments
would be insufficient. As a result, it developed a complete new draft for a life insurance business act.

In performing its work, the committee had looked at the four earlier proposals, developed during
the last 40 years: the 1885 report of the van Reesema committee, the 1897 report of
the Molengraaff committee, the 1900-1910 reports of the Society, and the 1912 bill submitted by
the government, including the comments made thereon in the interim report of the Second Chamber
in 1914.

As Boshuizen noted, the final proposals of the committee were largely based on the
recommendations of the Society issued in 1910. 298 The bill of 1912 was rejected, based on the critical
comments in the interim report. The committee considered a system only based on ‘freedom with
publicity’ insufficient, since the public was unable to assess the financial position of a life insurance
company because of its technical complexity. Therefore, a government-established group of experts
was needed, in the form of an Insurance Chamber. However, the role of this organisation should be
more restricted than proposed by the Society:

- There was no need to introduce some kind of licensing system: a simple statement at the
  incorporation of a life insurance company that the legal requirements had been met,
  should be sufficient. In such an approach, no deposit was necessary either;
- There was also no need to submit policy conditions and premium rates, since this would give
  the public a false impression of ‘approval’ and would contradict the principle of ‘freedom’
  for each individual company;
- The proposals to have the Insurance Chamber verify the schedules submitted by insurance
  companies at least every ten years was maintained, but the committee considered the
  advisory role of the chamber much more important and strengthened this considerably.
  According to the new proposals, the chamber could issue recommendations to an insurance
  company, which could be made public if the company did not comply. In the committee’s
  view, this would create such a preventive force, that the risk of non-compliance would be
  very limited;
- In contrast to other proposals, the committee rejected any powers for the Insurance
  Chamber to interfere in case of a threat of insolvency. In its view, this was and should stay
  the role of management of the company;

296 Tweede Kamer (1918), Handelingen 18 december 1918, p. 815-817.
297 Commissie Niemeijer (1920).
Regarding industrial assurance companies, the committee proposed that these were fully included, and that the only exception concerned a lower capital requirement at incorporation of such a company; and

For transition, the committee recommended a period of three years, with a possible extension, in special circumstances, to five years.

The draft bill also proposed 14 annual reporting schedules, mostly in line with those developed by the Society. According to the committee, they should be regulated by law and made available to the Insurance Chamber and to the public: there would be no distinction between public and non-public schedules. In the experience of the committee, most of the requested information was already provided in practice, so it did not expect any specific implementation problems. The proposed balance sheet and profit and loss account are presented hereafter and form part of annex 9 presenting all recommended and mandatory reporting formats.

Table 4.4: Niemeijer committee of 1920 – schedule 6: balance sheet for life insurance companies

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribed share capital/guarantee capital unpaid (see schedule 7)</td>
<td></td>
</tr>
<tr>
<td>Land and buildings (see schedule 8)</td>
<td></td>
</tr>
<tr>
<td>Loans guaranteed by mortgages (see schedule 9)</td>
<td></td>
</tr>
<tr>
<td>Securities (see schedule 10)</td>
<td></td>
</tr>
<tr>
<td>Private loans to provinces, municipalities, water boards, and the like (see schedule 11)</td>
<td></td>
</tr>
<tr>
<td>Continuations</td>
<td></td>
</tr>
<tr>
<td>Deposits and private loans</td>
<td></td>
</tr>
<tr>
<td>Policy advances</td>
<td></td>
</tr>
<tr>
<td>Assets in bare ownership</td>
<td></td>
</tr>
<tr>
<td>Usufruct</td>
<td></td>
</tr>
<tr>
<td>Bills of exchange</td>
<td></td>
</tr>
<tr>
<td>Cashiers</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>Interest and rent receivable</td>
<td></td>
</tr>
<tr>
<td>Balances with agents and reinsurers</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous debtors</td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
</tr>
<tr>
<td>Incorporation and expansion cost</td>
<td></td>
</tr>
<tr>
<td>Other assets (to be specified)</td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued capital/guarantee capital</td>
<td></td>
</tr>
<tr>
<td>Total life insurance provision</td>
<td></td>
</tr>
<tr>
<td>Reinsurers' share in life insurance provision</td>
<td></td>
</tr>
<tr>
<td>Unpaid claims</td>
<td></td>
</tr>
<tr>
<td>Reinsurers' share</td>
<td></td>
</tr>
<tr>
<td>Other reserves (to be specified)</td>
<td></td>
</tr>
<tr>
<td>Unpaid dividends and policyholder bonuses of previous years</td>
<td></td>
</tr>
<tr>
<td>Balances with agents and reinsurers</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous creditors</td>
<td></td>
</tr>
<tr>
<td>Other liabilities (to be specified)</td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.66.
Table 4.5: Niemeijer committee of 1920 – schedule 5: revenue account for life insurance companies

<table>
<thead>
<tr>
<th>Debit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Negative balance of the previous year</td>
</tr>
<tr>
<td></td>
<td>Life insurance provision for own account at the end of the year</td>
</tr>
<tr>
<td></td>
<td>Total claims, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Capital at death, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Capital at expiration, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Capital in fixed terms, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Premium refunds, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Annuities claims, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Surrenders, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Expenses (to be specified in main categories, but detailing at least: doctor fees (including medical advisors), commissions, inspection costs, and advertisement costs)</td>
</tr>
<tr>
<td></td>
<td>Valuation changes of assets (specified according to the balance sheet items)</td>
</tr>
<tr>
<td></td>
<td>Other charges</td>
</tr>
<tr>
<td></td>
<td>Net profit (to be appropriated to depreciation (to be specified), extra reserves (to be specified), etc.)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Undivided profit of the last year</td>
</tr>
<tr>
<td></td>
<td>Life insurance provision for own account at the end of last year</td>
</tr>
<tr>
<td></td>
<td>Total premiums, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Regular premiums, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Single premiums, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td></td>
<td>Interest</td>
</tr>
<tr>
<td></td>
<td>Rent</td>
</tr>
<tr>
<td></td>
<td>Policy expenses (excluding stamp duties)</td>
</tr>
<tr>
<td></td>
<td>Valuation changes of assets (specified according to the balance sheet items)</td>
</tr>
<tr>
<td></td>
<td>Other income</td>
</tr>
<tr>
<td></td>
<td>Balance</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
</tbody>
</table>

Source: table A9.65.

The committee proposals were positively received by *De Verzeckeringsbode*, which noted that many comments on the 1912 bill had been taken into account.²⁹⁹ Although it missed some issues, such as transitional provisions for existing companies, it considered the overall proposals very workable and appropriate for the situation in the Netherlands. On the other hand, A. Willering wondered why only life insurers should be put under supervision.³⁰⁰ He noted that the proposed name of the supervisory authority was the Insurance Chamber, not the ‘Life Insurance Chamber’, and argued that non-life insurance companies should also be included, in particular accident insurance companies, because accident insurance business was a natural complement of life insurance business and had become very popular in the last 25 years.

A publication on the proposals of the committee was issued by its chairman in 1921, reacting on a number of critical comments on the draft bill by de Savornin Lohman Jr., who had been a member of the committee of the Society issuing the 1910 proposals of this organisation.³⁰¹

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²⁹⁹ Verzeckeringsbode (1921a).
³⁰⁰ Willering (1921).
³⁰¹ Niemeijer (1921a).
In response to comments that his committee had acted too opportunistic, Niemeijer explained that it had been the committee’s view that legislation was that urgently needed, and that, therefore, compromises had to be found. The 1910 proposals of the Society had been rejected by the government, as was shown in the 1912 bill, so these proposals had to be adjusted to make any form of progress. These changes concerned, in particular, the role of the Insurance Chamber.

He also disagreed with the comments that the reporting schedules included too much detail and would harm competition, and the solution proposed by de Savornin Lohman Jr. to split the schedules in a public part (available to all) and a confidential part (available to the supervisory authority only), in particular because this would not contribute to the public confidence in insurance companies and because a number of companies already published such details on a voluntarily basis.

However, before the committee proposals could be discussed in Parliament, something happened that would create a major breakthrough after a period of over 40 years of legal uncertainty. This concerned the fall of the Algemeene and the Kosmos, discussed next.

4.4.3.9 The fall of the ‘Algemeene’ and the ‘Kosmos’

4.4.3.9.1 The history of the ‘Algemeene’

The history and developments of the Algemeene were extensively described in the report of the examining magistrate F. Sleutelaar, appointed by the court to investigate the position of the company, the way in which the management of the company had been carried out, and the responsibilities of the management board and the supervisory board. Unless indicated otherwise, the following description is based on this report.

The Algemeene had started its activities in 1881 and immediately expanded its operations in a number of foreign, mainly European, countries. By 1890, it was the largest Dutch life insurance company, measured in insured capital, half of which related to non-Dutch business. To finance this growth, the company started, in 1887, to apply a method to calculate the life insurance provision which was, at the time, quite unusual in the Netherlands. Instead of the net premium method, it used the adjusted gross premium method, under which the gross premium was taken into account and a separate provision for ongoing expenses was formed. Additionally, it used a rather high discount rate of 4%. In subsequent years, the expense provision was even abolished, leaving only a small potential mortality margin and interest margin available to cover ongoing expenses.

At the same time, the Algemeene continued – for competitive reasons – to distribute part of the annual profits to policyholders. The calculation method and underlying assumptions were not disclosed in the annual accounts. To cover the discount rate of 4%, the company invested heavily in securities, in particular outside the Netherlands. For instance, securities accounted for 61% of the total investments at the end of 1907. However, in contrast to a number of its competitors, the Algemeene never published a list of its investments, since this was considered unnecessary and undesirable. Additionally, it invested considerable amounts in land and buildings, which consisted, however, for the main part, of its own office buildings, effectively bringing no rental income.

302 Sleutelaar (1922).
303 As appendix 6 shows, this top ranking in the Dutch market continued until the end of existence of the company.
304 For an overview of the different methods for these calculations and its impact on the annual results, see section 2.8.2.3.3.
Regarding the foreign operations, Sleutelaar noted that the rapid expansion resulted, in most countries, in high expense levels and considerable losses. Additionally, foreign governments often required the local life insurance provisions to be invested or deposited in local currencies. This was especially the case in Russia, the fastest growing foreign business, which, therefore, required a considerable amount of funding (in different forms) from the Netherlands.

For competitive reasons, the company reported all funding arrangements for the Russian business (including the Russian subsidiary, reported at cost) under securities, the composition of which, as is already noted, was not disclosed.

At 31 December 1913, the company reported a balance sheet total of about NLG 65.4 million and a life insurance provision of NLG 62.5 million. This provision was for 65% invested in securities and for 13% in land and buildings, mainly office buildings. The total amount of subscribed capital was about NLG 0.5 million and retained earnings amounted to NLG 0.4 million, with an investment reserve of about NLG 0.4 million. In other words, total available equity was NLG 1.3 million, or about 2% of total assets. According to a government report issued in 1918, the Algemeene was still number one on the Dutch market at that time, measured both in insured capital and in premium income, and was double the size of the second on the market.305

As Sleutelaar reported, the outbreak of the First World War in 1914 had a devastating effect on the company. Not only did the sale of new business almost come to a halt, immediately revealing the insufficiency of the life insurance provision because no new expense surcharges were available to cover the actual expenses, but the war also resulted in a sharp fall on the securities markets and in foreign currency exchange rates. However, as a consequence of the application of certain accounting principles, under which accounting for investment losses were postponed if they were considered to be temporarily and foreign currency exchange rates were based on ‘normal’ rates, the desperate financial position at the end of the war in 1918 was not disclosed to the general public.

In an attempt to address this situation, the Algemeene concluded, in 1917, a consortium agreement with the Eerste Nederlandsche.306 It included, as a step to a full merger, the intention to join forces in those countries where both companies were already active, i.e. the Netherlands, Belgium, Luxemburg, and the Dutch East Indies. However, two years later, the Eerste Nederlandsche withdrew from the agreement, after having become familiar with the true financial position of the Algemeene, in particular in respect of its foreign activities. The ultimate result of the events was that the Algemeene was forced to go into run-off and start a liquidation process.

At the end of 1920, the Algemeene had total assets of NLG 26.5 million, against an amount of total liabilities of NLG 47.9 million, including a life insurance provision of NLG 43.9 million. In other words, a deficit of NLG 21.4 million. As a result, the initial payment percentage to policyholders was decided at 40,307 which was increased, in 1924, to 48.308

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305 Commissie monopolisering (1918), p. 20.
306 This was one of the predecessors of AEGON, see section 3.2.3.
308 Verzekeringsbode (1924).
The fall of the Algemeene was the direct inducement for the Dutch government to adopt, in 1921, an emergency act, to ensure a proper dismantling of the company. This act is discussed after presenting the fall of another large Dutch life insurer, the Kosmos.

4.4.3.9.2 The history of the ‘Kosmos’
The fall of the Kosmos was described in the report of examining magistrate S. van Brakel. He noted that the company, after a number of years in which it was the second largest life insurance company on the Dutch market, had also been the victim of the First World War. Since half of its business was originated on the German market, the company was extremely vulnerable to the developments on this market. This was caused by the fact that the German supervisory authorities not just required the life insurance provision to be invested in German investments, but also a considerable additional amount to cover adverse developments. On top of this, the management of the Kosmos had decided to invest even more in German securities because of their good investment returns. Furthermore, with the approval of the German authorities, the Kosmos applied the Zillmer reserve method to its German business, with a Zillmer-quote of almost 6%.

As a consequence of the First World War, premium income from the German business fell away, securities prices dropped, and the German currency decreased substantially in value when converted into Dutch guilders. The result was that the company could no longer meet its liabilities and that management put it under the 1921 emergency act, described hereafter, to achieve an orderly liquidation. According to an independent auditor’s report, the results of which were published by management of the company, the deficit at the end of 1920 was estimated at NLG 2.9 million. As a result of foreign currency developments in the first half of 1921, this deficit was increased to an amount of NLG 8.7-11.4 million. This resulted in a preliminary payment percentage of 60.

4.4.3.10 The 1921 emergency act on life insurance companies
The fall of the Algemeene forced the Dutch government, after 40 years of relative inactivity, to develop initiatives to prevent a further deterioration of the interest of the policyholders of this life insurance company. On 2 February 1921, it submitted a bill to Parliament including provisions for life insurers, for which one could reasonably foresee that, in the future, they would not be able to fully meet their obligations.

The bill proposed the appointment, by court, of an examining magistrate, who would assume full management responsibility to protect the interest of all creditors. Such a court decision could be requested by the company itself or by the ‘Public Prosecutor’. As a result of the decision, the company could not be forced to meet its obligations. At the request of the examining magistrate, the court could amend the rights and obligations of the company and of the creditors. With only very limited amendments, the bill was approved by the Second Chamber on 16 March 1921.

310 van Brakel (1922).
311 See appendix 6.
312 As was noted in the 1897 report of the Molengraaff committee, German prudential regulations already existed at the time.
313 Verzekeringbode (1921b).
315 Tweede Kamer (1921b), nr. 393.
316 Tweede Kamer (1921a), Handelingen 15 and 16 maart 1921.
The First Chamber subsequently adopted the amended bill on 28 April 1921, without much discussion.\(^\text{317}\) The act was published on 2 May 1921.\(^\text{318}\) It became effective on 23 May, i.e. less than four months after the submission of the bill.\(^\text{319}\)

In the years 1920-1940, next to the Algemeene and the Kosmos, another nine small life insurance companies and two funeral funds were being brought under the emergency regime and liquidated.\(^\text{320}\)

### 4.4.3.11 The adoption of the life insurance business act in 1922

Soon after the adoption of the emergency act the government submitted a bill on a life insurance business act to Parliament on 4 October 1921.\(^\text{321}\) The bill included 81 articles and was accompanied by 14 proposed schedules, to be annually submitted to a newly created insurance supervisory authority, the Insurance Chamber. Schedules I to IV concerned the life insurance provision; schedules V and VI included the profit and loss account and the balance sheet, respectively; schedule VII included information on shareholders; schedules VIII to XIII provided details on specific investment categories; and schedule XIV focused on mortality results.\(^\text{322}\) According to the explanatory memorandum accompanying the bill, the proposals were completely based on those of the 1920 Niemeijer committee, with only minor adjustments, and complemented with provisions to incorporate the 1921 emergency act in the life insurance business act. As a consequence of submitting this bill, the 1912 bill was withdrawn.\(^\text{323}\) The 1921 bill also included specific provisions regarding mutual insurance companies.

The Second Chamber discussed the bill in March 1922 and, generally, supported the proposals. It discussed several alternatives, which were rejected by the government: the introduction of minimum premium rates and of mandatory calculation methods and assumptions for the life insurance provision, supported by the publication of the general norms applied by the Insurance Chamber, and the expansion of the supervisory system to non-life insurance companies. However, it also achieved an agreement with the government on a number of other issues, resulting in an amended bill submitted in May 1922:

- The proposed requirement for existing companies to convert into a joint stock company or a mutual insurance company was deleted;
- The withdrawal of the proposal to introduce minimum capital requirements (in other words, a required solvency margin) for existing companies. Under the amended bill, such requirements would only be applicable to new companies. Furthermore, the amounts were substantially increased, although exemptions could be given for small insurers and companies only active in the business of industrial assurance; and

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\(^\text{317}\) Eerste Kamer (1921), Handelingen 28 april 1921.

\(^\text{318}\) Minister van Justitie (1921a), Staatsblad 1921, nr. 695.

\(^\text{319}\) Hoogstraten (1921).


\(^\text{321}\) Tweede Kamer (1921c), nr. 60 and Tweede Kamer (1922a), nr. 25.

\(^\text{322}\) Since the proposed models for the profit and loss account and the balance sheet were almost identical to those proposed by the Niemeijer committee, they are not included in annex 9.

\(^\text{323}\) Tweede Kamer (1921d), nr. 64.
• The prohibition on other activities than life insurance was clarified by the statement that accident, disability and health insurance business was allowed. The amended bill also clarified that funeral in-kind insurance business would not fall under the act, and that the Insurance Chamber would assess whether or not a separate act would be desirable.

Considerable debate occurred on the proposed schedules. Some viewed these as (much too) extensive, too rigid, and unnecessary. Although the government disagreed with this view, it agreed to exclude the schedules from the act, and to determine the schedules by an Administrative Decree. The provisions in the act would be limited to the requirement that the schedules should provide a “duidelijk en volledig beeld” (clear and full view) of the management and financial position of the company. In his response to comments made in the Second Chamber, the Minister of Justice explained that a lot of information required by the proposed schedules was already disclosed on a voluntary basis, and that there was even one company which had used the proposals of the 1920 Niemeijer committee and the 1921 bill to prepare its financial statements. This company was the Nationale, in which Niemeijer was the managing director.

While the parliamentary discussions on the bill occurred, there were not many comments from the professional insurance press. In particular the two most influential magazines which had previously contributed to the debate, i.e. De Verzekeringsbode and Het Verzekeringsblad, were, generally, silent. They explained this position in several editorial comments, stating that the recent developments (the fall of the Algemeene and the Kosmos) showed it was time to close the ranks and make sure that a supervisory act was finally adopted. Generally, this call was followed, although the debate between de Savornin Lohman Jr. and Niemeijer on the general direction of the bill continued in the last few months of 1921, without new arguments from either of the two parties.\(^\text{324}\) The only other general comment put forward in the insurance press, in particular in De Polis, concerned the fact that the government had not taken any initiatives to expand supervision to non-life insurance business.

Several specific comments were published on the proposed schedules. Th. Liefrinck commented that these were not developed in an unbiased way, but strongly guided the insurers in a certain direction.\(^\text{325}\) For instance, he interpreted the guidance on the life insurance provision as a strong incentive to apply the net premium method, rejecting other methods, and strongly disagreed with any guidance on this issue. Another example was the guidance on securities, which, in his view, pushed preparers in the direction of market values. At the same time, this valuation basis was not requested for other loans. Liefrinck concluded that this analysis proved that it would be much better to regulate the schedules by Administrative Decree, leaving sufficient room for improvements in case practical experience would show that this was necessary.

Many of the comments provided by Liefrinck received strong support in a publication by N. de Lieme, the founder and managing director of ‘De Centrale’, who had the same objections against the implicit push towards the net premium method to determine the life insurance provision and the market valuation for securities.\(^\text{326}\)

\(^{324}\) de Savornin Lohman Jr. (1921) and Niemeijer (1921b), respectively.

\(^{325}\) Liefrinck (1921).

\(^{326}\) de Lieme (1921).
Furthermore, de Lieme pointed out that the demise of the two largest insurance companies was more the result of management errors and, in case of the Algemeene, the absence of transparent reporting practices. In his view, the bill was the result of unfounded panic and not of a proper assessment of management and reporting practices of the Dutch insurance industry as a whole. Finally, he noted that there were critical problems in a large number of proposed reporting schedules, in particular for industrial assurance business.

An alternative for the proposed schedule for the profit and loss account under the life insurance business act was presented early 1922 by H.J. Havik. He was a senior official of the Groot-Noordhollandsche, which, as is described in the next section on the reporting practices of the companies reviewed in this dissertation, voluntarily included such alternative schedules as supplementary information in its annual accounts from 1921 onwards. In his view, a split had to be made between the different classes of business and between the different components of the result of a life insurer, i.e. underwriting results, interest results, expense results, and other items. According to Havik, such an alternative presentation would increase the transparency of the financial performance considerably.

The government ultimately decided to delete the schedules from the act itself and to regulate them by Administrative Decree. The final government proposals were discussed and approved by the Second Chamber on 12 and 13 October 1922. Without much debate, the First Chamber agreed on 21 December 1922. The resulting act was published the next day and is, together with the related Administrative Decrees, discussed in the next chapter. The first year of the mandatory reporting requirements was 1925.

4.4.3.12 Summary and conclusions

The description of the history of Dutch prudential reporting developments shows that, in the period reviewed in this chapter, the focus has been completely and only on life insurance business. This can, in my view, be explained by the financial difficulties experienced by the predecessors of life insurance companies at the end of the 1820s and of a number of funeral funds in the 1880s, and by the political pressure to address the vacuum in life insurance supervision after 1880. Apparently, there was no such pressure for the supervision of non-life insurance companies, despite some critical observations in the insurance press.

The description also shows that none of the initiatives to implement a system of insurance supervision considered the interaction with the 1838 commercial code. It was as if this code and the debate on necessary improvements did not exist, although there were some comments on these topics in the literature. In my view, the absence of a discussion on the interaction between the two legislative development shows that none of the involved parties even considered whether there should be a single-track reporting approach: the focus was purely on the development of a system of life insurance supervision, including, among others, prudential reporting requirements resulting in the publication of one set of financial statements to both the shareholders and the existing policyholders.

327 Havik (1922).
328 Tweede Kamer (1922b), Handelingen 13 oktober 1922.
329 Eerste Kamer (1922), Handelingen 21 december 1922.
330 See section 5.4.2.2.
The early prudential requirements were based on the French legislation of the early 19th century, and advance Royal approval was required for all Dutch organisations that wanted to operate in the life insurance industry. This system was an important difference with the requirements in the Dutch commercial code, which was also based on the French legislation: in respect of supervision of life insurance business, the authorisation was required for all companies, irrespective of their legal form. In other words, the focus was on the activities. In the commercial code, such an authorisation was only required for joint stock companies. For joint stock companies active as life insurers, this meant that a double authorisation system was required: firstly, to incorporate the company, and secondly, to operate as a life insurer.

As a result of a Supreme Court decision in 1880, however, this system of advance authorisation of life insurance activities was declared unconstitutional, and the underlying Royal Decrees were, effectively, abolished. This decision was the start of a number of developments, which would take over 40 years. During this period, the following initiatives were taken to address this situation:

- The installation of the van Reesema committee, an advisory committee appointed by the government in 1883. The recommendations of the committee, issued in 1885, were based on the principles of ‘freedom with publicity’ under the UK life assurance act of 1870. Although the direction of the committee proposals was supported, the detailed recommendations triggered intense debate within and outside the Dutch life insurance industry, which made it impossible for the government to submit a bill based on these proposals;

- The appointment in 1892 of another advisory committee, headed by Molengraaff. This committee also identified the UK-principle of ‘freedom with publicity’ as the primary basis for its proposals, but extended this system in its report issued in 1897 by the proposed introduction of a specific bureau to supervise Dutch life insurers. In particular this additional supervisory element was an issue of major debate between strong supporters and opponents within the Dutch life insurance industry. Again, the committee report did not result in a government bill;

- In response to these failed attempts, the life insurance industry decided, in the beginning of the 20th century, to develop itself a set of proposals. Although the first proposals in 1900 and 1903 did not receive sufficient support, a new set published in 1910 did, and this set was subsequently submitted to the government for its consideration. It included a draft bill of over 50 articles, covering a wide range of topics which were, generally, also included in the most recent UK legislation; a set of 23 mandatory reporting schedules; and the introduction of a licensing and supervisory system to be executed by an independent Insurance Chamber. Also these proposals were not fully supported by all within and outside the life insurance industry, and sometimes heavily criticised, in particular in respect of the role of the Insurance Chamber and the extensive publication requirements;

- This debate was fuelled further by the publication of a government bill in 1912, which more or less completely ignored the proposals from the industry, and limited legislative requirements to the absolute minimum. With this bill, the government proposed to introduce a much lighter supervisory regime than desired by the insurance industry, a situation which was usually the other way around. Because of this fundamental difference in approach, the bill encountered a large amount of resistance, both from within and outside Parliament. The result was another stand-still situation in respect of further developments; and
• The breakthrough in 1921, when the government had to address the problems resulting from the fall of the two largest Dutch life insurance companies. Within a very short period of time, an emergency act was adopted, which subsequently, with the assistance of an already installed new advisory committee, resulted in the life insurance business act of 1922, the first Dutch supervisory act on insurance companies. This final act was largely based on the 1910 industry proposals (including the introduction of extensive publication requirements to the supervisor and the public at large and of the Insurance Chamber), and is discussed in the next chapter.

4.5 Reporting in practice

4.5.1 Introduction

As is described earlier in the section dealing with the Dutch financial reporting developments, there were no legal requirements regarding the contents of financial statements in the period reviewed in this chapter, nor was guidance provided by the auditing profession or the stock exchange. It was a period of complete freedom of accounting principles, in which some debate occurred on the unclear nature of some reserves and on the acceptability of secret reserves.

This applied to insurance companies as well, where the insurance press noted several times in the first decades of the 20th century that the financial statements of non-life insurance companies were not transparent. However, the debate mainly focused on life insurance companies, where a large variety in practices was observed, in particular regarding the frequency of the determination of the profits and profit sharing, accounting for investments and the life insurance provision. Also, several industry participants argued that the published annual accounts were, generally, much too extensive. On the other hand, it was noted that, as a result of these extensive reports, most companies already provided, in the beginning of the 1920s, the information required by the life insurance business act introduced in 1922 and the preceding proposals developed by the Society of Life insurers. Based on the literature in the period, a large amount of diversity in practice is expected.

This section describes and analyses the actual reporting requirements by the selected companies and the Dutch insurance industry as a whole. To avoid overlap and redundancies, it does not end with a summary and conclusions on the actual reporting practices: these are presented at the end of each chapter as part of the presentation of the summary and conclusions for the whole period.

The section discusses the actual reporting developments of the selected companies. It is based on the data extracted from the financial statements, which are summarised in annex 13.331 However, while the tables in this annex are presented per individual company, the analysis in this section is organised by individual selected element of financial reporting, in the following order:

• The size of the financial reports;
• The layouts of the primary financial statements, i.e. the balance sheets, the profit and loss accounts, and the cash flow statements. This description also includes comments in respect of the movement schedules of reserves, since the contents of these schedules provide information regarding the nature of these reserves and the accounting policies of the reporting companies;

331 The tables concerning the period reviewed in this chapter are included in annex A13.2.
• The accounting treatment of investments;
• The accounting treatment of technical provisions;
• The accounting treatment of long-term employee benefits (the provision for pensions and similar obligations);
• The accounting treatment of taxes (the provision for (deferred) tax and tax on profit or loss);
• The presentation of segment information; and
• The accounting treatment of business combinations.

The descriptions and analysis of (changes in) accounting policies are included in the discussions of the individual topics. As there were, apart from minimum capital requirements in the form of fixed amounts, no requirements in respect of a required solvency margin linked to the size and the risks of each company during the period reviewed in this chapter, such information was not disclosed by any of the reviewed companies.

Because there were, in the period reviewed in this chapter, also no formal requirements in respect of prudential supervision (and only very limited ones on financial reporting), the issue of a single-track reporting approach was not relevant, although the following descriptions show that several companies reviewed in this dissertation did take ongoing developments into account.

4.5.2 The size of the financial reports

The developments in respect of the size of the financial reports are summarised in the table presented hereafter. If the number for an individual company was not available for a specific year, e.g., because it was incorporated in another year, the number of the year which was closest is used. As an example, the number of the Algemeene Friesche presented for 1895 is actually from 1897, the first year for which a number was available. Whether or not the financial reports should be considered as (too) extensive, as was stated by some industry participants, cannot be assessed, since statistics on the whole life insurance industry or on other companies could not be retrieved.

Table 4.6 Number of pages of the financial reports in the period 1880-1924

<table>
<thead>
<tr>
<th>Year</th>
<th>1880</th>
<th>1885</th>
<th>1890</th>
<th>1895</th>
<th>1900</th>
<th>1905</th>
<th>1910</th>
<th>1915</th>
<th>1920</th>
<th>1924</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algemeene Friesche (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>19</td>
<td>23</td>
<td>35</td>
<td>48</td>
</tr>
<tr>
<td>Groot-Noordhollandsche (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26</td>
<td>7</td>
<td>11</td>
<td>24</td>
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<td>35</td>
</tr>
<tr>
<td>Olveh (L)</td>
<td>-</td>
<td>31</td>
<td>23</td>
<td>24</td>
<td>31</td>
<td>33</td>
<td>48</td>
<td>55</td>
<td>55</td>
<td>51</td>
</tr>
<tr>
<td>Eerste Nederlandsche (L)</td>
<td>34</td>
<td>31</td>
<td>37</td>
<td>38</td>
<td>33</td>
<td>43</td>
<td>47</td>
<td>55</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>Nieuwe Eerste Nederlandsche (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>59</td>
<td>15</td>
<td>16</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td>Utrecht (L)</td>
<td>-</td>
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<td>27</td>
<td>16</td>
<td>14</td>
<td>14</td>
<td>15</td>
<td>23</td>
<td>59</td>
</tr>
<tr>
<td>Nederlanden van 1845 (N-L)*</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26</td>
<td>26</td>
<td>25</td>
<td>103</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Nederlanden Leven (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14</td>
<td>38</td>
<td>88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nationale (L)</td>
<td>12</td>
<td>17</td>
<td>22</td>
<td>27</td>
<td>34</td>
<td>23</td>
<td>27</td>
<td>72</td>
<td>45</td>
<td>112</td>
</tr>
</tbody>
</table>

Note*: in 1920, the Nederlanden van 1845 added much additional information related to its 75th anniversary.

The table shows a varied picture, which cannot be explained by the distinction between the legal form of the companies (the Algemeene Friesche, the Groot-Noordhollandsche and the Olveh were mutual insurers, while the others were joint stock companies). Also, the difference between life insurers (marked ‘L’) and non-life insurers (marked ‘N-L’) provides no indication for the developments.
However, what can be observed in table 4.6 is that all companies showed an increase after 1915, in particular from 1920 to 1924. This can be explained by the adoption of the life insurance business act in 1922: although only the Nederlanden Leven stated this explicitly, the financial statements of all companies showed that they already adapted their reporting formats, despite the fact that, as is explained before, this was only mandatory from 1925 onwards.  

The developments in the numbers in the table for most individual companies can be explained by company-specific issues, presented in annex 13, and do not result in additional generic comments. However, the development in respect of the size of the financial reports of the Nationale warrants a separate discussion. Starting in 1882, which was the end of a five-yearly profit sharing period, the company included a number of additional schedules in its annual report, which expanded its size from 14 to 35 pages. The notes explained that these schedules were completely based on the UK life assurance companies acts 1870-1872, described earlier in this chapter when presenting the UK prudential reporting developments. The decision to follow this reporting structure was already announced in 1878, explaining that the UK models were considered as the best available at the time. It was driven by the support of the Nationale for a high level of openness regarding financial reporting. In the 1882 financial statements, Samot (the mathematical advisor of the company) explained that only minor adjustments had been necessary to make the UK models fully operational for the Dutch environment. However, it should be noted that the inclusion of this additional information had no impact on the formats of the balance sheet and the profit and loss account. The 1882 approach was repeated in 1887, which was the next year of closing of a five-yearly profit sharing period. As before, the balance sheet and the profit and loss account were presented in conformity with earlier years. The facts, therefore, do not support the statement of Barendregt and Langenhuyzen that the Nationale, from 1887 onwards, applied the UK models in preparing its financial statements.

In 1892, the Nationale started to apply a different approach. While maintaining the formats of the balance sheet and the profit and loss account, the schedules presenting the results of the five-yearly period were based on the proposals of the 1885 van Reesema committee (who was, at the time, the managing director of the Nationale). The company noted that it had experienced hardly any difficulties in applying these proposals, and that only some parts had required improvements and clarifications. It considered the proposals, in some areas, better than the models under UK legislation, applied before. The additional information required 21 pages, of a total of 39. From 1893 to 1903, the Nationale continued using the 1885 models for its multi-year closings, publishing the revenue account and the surcharge account as supplementary information in the interim years. However, as before, the main formats of the balance sheet and the profit and loss account were not fundamentally altered.

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332 See section 5.4.2.2.
333 This increase in size is not visible in the table, since it concerned years which are not included.
335 Ibid, p. 111.
In the period 1904-1911, the Nationale no longer included additional schedules in its financial statements; the reasons for abolishing this practice were not revealed. However, during 1912-1920 the old practice was resumed: the financial statements for 1912, which was another year of closing the three-year period for profit appropriation, included 50 pages of additional information (out of a total of 95 pages), based on the models proposed in the 1912 government bill on life insurance companies. However, because of the formats applied by the Nationale in earlier years, these proposals had no influence on the presentation of its balance sheet and profit and loss account. This approach was repeated in 1915 (explaining the large number of pages in this year, compared to the other years in the table) and in 1918, but, for unknown reasons, not in 1921. As was the case for the other companies, the final and most fundamental change in reporting practices occurred in 1924: the Nationale already reported under the models of the life insurance business act one year before its mandatory date. This was the driver behind the explosive growth of the number of pages in the financial report from 1920 to 1924.

4.5.3 The layouts of the primary financial statements

4.5.3.1 The layouts of the balance sheets, the profit and loss accounts, and the cash flow statements

4.5.3.1.1 General observations in the literature
The publications on the Dutch insurance industry practices in general made it clear that there was a wide variety in practices, showing large differences between the companies. According to van Geer, this was already the case in the 1880s. He noted that some companies provided a balance sheet annually, while others did so only once every five years.

The actual financial reporting practices of a number of Dutch life insurance companies around the turn of the 19th century were discussed by the auditor A. Faber. He analysed the annual accounts of 12 companies, 7 of which were life insurers. His findings revealed a large variety in the amount of detail reported in the balance sheets and the profit and loss accounts between companies, and in the accounting policies that were applied.

However, despite these differences, Faber concluded that, in general, a detailed analysis of the annual accounts did allow for an appropriate assessment of the financial position and performance of the companies. In contrast to these observations, Kreukniet argued in 1905 that life insurers did not produce anything like a normal profit and loss account at all, since it included items that were neither charges nor income. This applied to claims, expenses, premiums and interest, since all these items were – directly or indirectly – related to or included in the life insurance provision. In his view, the profit and loss account should provide information on the profits or losses on mortality, interest, and expenses, which required a completely different kind of format than was presented in practice. And such information was also, generally, not included in the notes. An alternative approach regarding this issue was proposed in 1906 by Mees. He supported the idea of providing information on the sources of income of a life insurance company, but suggested that such information should be presented in addition to the normal profit and loss account.

336 van Geer (1888), p. 89.
337 Faber (1904).
338 Kreukniet (1900).
339 Mees (1906).
According to van Geer in 1908, these comments and suggestions did not, however, result in an improvement of the quality of the financial statements of life insurers. Each company still disclosed what it wished, and was often silent on issues which were of great importance for an appropriate assessment of the position of the company, but which management preferred not to disclose. He noted that regulations regarding the valuation of investments or the life insurance provisions were absent, and that the annual accounts, in his view, did not provide any reliable information on the financial position and performance of the company.

A systematic review of the reporting practices of Dutch life insurance companies was carried out for the years 1912-1915, as part of an exercise of an insurance industry committee (the ‘Commissie monopolisering’, henceforth, the ‘monopolisation committee’) to react on a government proposal to nationalise this industry. The findings were reported in 1918, and the main conclusion was that there was no common practice to define the bottom-line result of a life insurance company.

Some reports focused on gross profit, others on net profit. Furthermore, the result was not always calculated on an annual basis, but by several companies only once every three, four, or five years, and it could include amounts allocated to or released from the extra reserves. Finally, bonuses allocated to staff or management were often reported as part of the appropriation of profits, while representing a considerable component of the annual salaries.

Part of the differences in practice can be explained by varying views on the purpose of financial reporting. In this respect, it was in particular van Schevichaven Jr. who argued, already in 1897, that a distinction should be made between reporting to shareholders, and to policyholders. In his view, the habit of publishing extensive annual accounts, even without a legal requirement to do so, should be abolished and policyholders should only be informed on what they needed to know, nothing more.

This view played a strong role in the debate on life insurance supervision in the Netherlands described in the previous section and was supported by several others, such as A.H.J. de Goeij (an actuary), who commented in 1918 that life insurers (still) made too much information publicly available, to the advantage of competitors. In his view, information to policyholders should be driven by propaganda arguments only. The debate on the contents of the financial statements ended with the adoption of the life insurance business act in 1922. According to the actuary J.C. Olij, at that time a number of life insurers already reported, in their balance sheet and profit and loss account, what was required under this new act.

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340 van Geer (1908), p. 4-18.
341 This committee included four members of the insurance industry: L.W.A. Colombijn, W.P. Ingenegeren, J. Kist, and J.W. Niemeijer. Their positions and the government proposal itself are described in the section on the Dutch prudential reporting developments.
342 Commissie monopolisering (1918).
343 van Schevichaven Jr. (1897a).
344 de Goeij (1918).
345 Olij (1922).
Regarding non-life insurance companies, the literature included only a limited number of publications. The observations focused on the transparency of the annual accounts, and noted that, in general, these insurers did not disclose the necessary information on premiums, claims, expenses, the technical provisions, and the accounting policies.\(^{346}\) It would, however, not be until the 1960s that such requests were met with the introduction of the ‘Wet op het schadeverzekeringsbedrijf’, henceforth, the ‘non-life insurance business act’.\(^{347}\)

### 4.5.3.1.2 The layouts of the balance sheets

The balance sheets of the companies reviewed in this dissertation were all prepared using the T-format. Comparative amounts for the previous year were not included.

The tables in annex 13 show that almost none of the formats that were proposed before the adoption of the life insurance business act were used by the companies reviewed in this dissertation for the preparation of their official balance sheets. The only exception occurred in 1920-1924, when the Nederlanden Leven disclosed that it applied the formats of the 1920 Niemeijer committee for the preparation of its balance sheet and profit and loss account. However, the tables also show that the number of individual balance sheet items gradually increased during the period, and that several companies introduced new lines that were included in one of these proposals.

In the layout of the balance sheets, there was no clear difference between life insurers and non-life insurers (except, of course, in respect of the technical provisions). However, there were some differences between the individual companies:

- The balance sheets of the three mutual insurance companies (the Algemeene Friesche, the Groot-Noordhollandsche and the Olveh) were, generally, more stable and showed fewer developments in respect of the individual lines in the statement, although there were differences in the level of details concerning the investments, discussed later in this section;
- The same applied to the Utrecht, the Nederlanden van 1845 and the Nederlanden Leven, and the Nationale;
- However, the balance sheets of the Eerste Nederlandsche and the Nieuwe Eerste Nederlandsche showed considerable changes over time. In contrast to all other companies, they only started to present the individual investment categories in 1910 and 1915, respectively. A comparison with the models presented in annex 9 shows that the formats were influenced by the proposals of the Society for Life insurance in 1910, the government in 1912, and the Niemeijer committee in 1920. Furthermore, these balance sheets presented frequent changes in the combination or split of different categories of debtors.

In the early 1910s, the balance sheets did not include separate lines for debtors and creditors, but only showed the balance. An possible explanation for these changes was the appointment of an auditor in 1910, as is evidenced by the appearance of an auditor’s opinion in the financial report from this year onwards: it was also the year in which the companies disclosed their accounting policies for securities for the first time;\(^{348}\) and

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346 Verzekeringsbode (1905), Verzekeringsblad (1912), and De Polis (1922).
347 See section 5.4.2.6.
348 Although most of the other companies also appointed an auditor in the period reviewed in this chapter, the Eerste Nederlandsche and the Nieuwe Eerste Nederlandsche were the only companies showing observable changes in their financial statements.
Almost all joint stock companies showed an asset for the amounts of subscribed but not fully-paid share capital. This presentation was based on the 1838 commercial code, which stated that the shareholders were not further liable than the full amount of the shares, but also that the original owner of these shares remained liable for such full amount in case of transfer of the shares, unless the management and supervisory boards of the company had lifted this liability.  

All companies used, from the start, separate lines for the different categories of the technical provisions (on a gross basis or net of reinsurance), discussed later in this section. The presentation of provisions for long-term employee benefits and tax is described later as well. The companies also presented separate lines for individual reserves, which appeared under a number of different names in the balance sheet. The nature of these reserves could not always be derived from the financial statements. As is described earlier in this chapter by Labrijn in 1902 (when discussing the comments and debate on accounting policy choices), a distinction should be made between ‘true’ reserves (to strengthen the capital of the company, to provide for future dividend payments, to cover exchange differences, or to set aside money for future replacement or expansion), and ‘unjustified’ reserves, which should, in his view, be deducted from the related assets. To make such a distinction in case the objectives of the reserves were not clearly defined or disclosed, information could be found in the movement schedules of the reserves or in the description of the accounting policies. However, movement schedules were only provided by a limited number of companies, not always covering the full period in which the financial statements were available, and an overview of accounting policies was also absent or incomplete for several companies. A final potential source of information in the form of the proposed or actual profit appropriation was also not systematically available.

Based on the information that was presented, the following observations can be provided:

- All companies showed an extra or free reserve, available to absorb future losses;
- All companies also showed an investment reserve to account for unrealised and/or realised gains and losses on investments. This reserve appeared under a number of different names: “reserve voor koersverschillen”, “reserve voor belegging”, “fondsenreserve”, and “waarborgfonds voor beleggingen”;
- A number of companies showed a “kapitaalreserve” (capital reserve), a “zekerheidsreserve” or a “zekerheidsfonds” (security reserve), or a “aandeelhoudersreserve” (share premium reserve), including additional funds provided by shareholders or participants, or created from retained profits under the articles of association;
- Several companies presented a foreign currency reserve, to account for fluctuations in such currencies outside the profit and loss account; and
- Several companies showed reserves to cover specific future expenses or payments, such as those related to expansion, potential increases of mortality risks, a potential decrease in the discount rate, or dividend supplements. In case such expenses occurred or payments were made, releases from these reserves were included in the profit and loss account.

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349 Secretaris van Staat (1838), Staatsblad 1838, nr. 12.
Next to these reserves, which all served a clear purpose and, under today's classification, were part of equity, there were other items reported as reserves of which the nature was less clear. It is possible that some of them should be considered as necessary reductions of assets, such as reserves for depreciation of land and buildings, of furniture and equipment, of less liquid assets, or of doubtful debtors. It is also possible that some of these reserves were effectively part of the technical provisions, such as the extraordinary reserve for 1915, which was created to cover uncertain events from the outbreak of the First World War. Finally, it is possible that they were created for profit-smoothing purposes, such as the reserve for special purposes. Since detailed information on these reserves and their movements was not provided, definitive conclusions are not possible. However, it should be noted that these reserves only appeared in a few companies and were, compared to the other reserves, relatively small.

The companies also showed differences in their methods to account for profit sharing arrangements with policyholders. Since this was directly linked to the frequency of determining the profit available for distribution, shown in the profit and loss account, these differences are discussed later in this section. Concerning the other items in the balance sheet, the treatment was fairly similar: only some differences could be noted in respect of the presentation of not subscribed capital (as an asset or as a deduction from authorised capital), or in the accounting treatment of incorporation and expansion expenses, which were capitalised by some companies, but generally disappeared rapidly.

Overall, my conclusion is that, despite the identified differences, the diversity in the layout of the balance sheet was much less than expected from the general observations in the literature.

4.5.3.1.3 The layouts of the profit and loss accounts
As was the case for the balance sheets, the profit and loss accounts of the companies reviewed in this dissertation were all prepared using the T-format. Comparative amounts for the previous year were not included. Regarding the layouts, a split needs to be made between life and non-life insurance companies. The description starts with life insurers.

The first observation is that, during the period presented in this chapter, all reviewed life insurers developed their own formats and did not use any of the formats proposed during the discussions on the creation of a life insurance business act, as is described in the section on the Dutch prudential reporting developments. However, a comparison of the formats of the companies and the proposals reveals that there was some relation between these proposals and the formats of the profit and loss accounts applied in practice. This concerned, among others, the breakdowns in respect of claims, expenses, and premiums. Splits by nature were provided by all companies, although not on a consistent basis and not always in the same categories. The changes over time can be partially aligned with the publications of these proposals.

The treatment of reinsurance coverage also varied between the companies and over time. The companies generally did provide information on the recognition of reinsurance premiums and the share of reinsurers in claims in the profit and loss account, but in different ways and not consistently for the whole period reviewed in this chapter. Reinsurance premiums were reported as charges, as deductions from the gross premiums, or not at all. Similarly, the reinsurers’ shares in claims were reported as income, as deductions from the gross claims, or not at all. Regarding this topic, there was no prevailing approach observable in the financial statements.
Another area of differences concerned the presentation of the movements in the life insurance provision. The Algemeene Friesche, the Groot-Noordhollandsche, and the Olveh showed consistently only the increase in the provision in the profit and loss account. In contrast, the Eerste Nederlandsche and the Nederlanden Leven showed consistently the provision at the beginning of the year under income, and the provision at the end of the year under charges. The Utrecht and the Nationale changed their presentation after 1910: before, they applied the same approach as the previous two companies, and subsequently, they only showed the increase of the provision. Comparing the presentation in the financial statements of these two companies with the formats presented in annex 9, it seems that the companies chose their initial formats using the UK life assurance companies act and the 1885 proposals of the van Reesema committee. The change to presenting only the addition to the provision was aligned with the 1903 proposals of the Society for Life insurance and the 1912 government bill. The increase in the life insurance provision, independent of its presentation, was generally reported as part of the determination of profits, with one exception: the Algemeene Friesche presented the increase as part of its profit appropriation until 1923. Although no disclosures were provided, it can be argued, in my view, that this treatment was determined from the perspective of the legal status of the company: as a mutual insurer, one can, in my view, defend that the accounting treatment was logical, since, in the end, all profits belonged to the members. This line of reasoning does not, however, explain the difference with the approach adopted by the other two mutual insurance companies.

The profit and loss accounts showed that most of the companies determined and distributed the policyholders’ share in profits on a multi-year basis, although the Utrecht moved to an annual basis in 1910. The frequency varied between three and five years and was not always aligned with the determination of the life insurance provision and the total amount of profits. In the interim years, some companies reported the unallocated profit share of policyholders as a separate line in the balance sheet, but others included these amounts in the total of unallocated profits.

When the profits were determined, profit appropriation occurred, which was, however, not always shown clearly and consistently in the financial statements. Although some companies systematically disclosed the total profit and its appropriation in the profit and loss account, others showed only unappropriated amounts or included the appropriation without disclosing the total profit, or changed their presentation during the period reviewed in this chapter. In summary, there was no generally applied practice in this area.

When the profit appropriation was disclosed, it included profit shares of policyholders, dividends, bonuses, tax, and additions to specified reserves. In some cases, additional items were included, on the impact of accounting policy changes, depreciation on land and buildings, value adjustments of subsidiaries, and additions to specified staff funds. For the Olveh, it included the share of the Vereniging Eigen Hulp. The inclusion of bonuses was one of the criticisms of the monopolisation committee in 1918, as is described earlier in this section.

[350 See section 3.2.2.]

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Regarding the profit and loss accounts, the practices of two companies warrant some further comments. The first was the Utrecht, which showed, until 1910, separately an income account and a profit and loss account. The first account included all insurance-related items and the second one all other items. Subsequently, the income account was abolished and all items were included in the profit and loss account. The distinction between an income account and a profit and loss account was in line with the UK 1870 life assurance companies act. The amendment in 1910 most likely followed from the 1910 proposals by the Society for Life insurance. Both are described earlier in this chapter.

The second company was the Groot-Noordhollandsche, which published, from 1921 onwards, a number of additional schedules supporting the profit and loss account. These were:

- The surcharge account, comparing the actual initial and ongoing expenses in the year with the received surcharges for such expenses;
- The interest account, which contrasted the interest accretion to the life insurance provisions, per department, with interest and rental income;
- The revenue account for the life insurance department. This account determined the result on mortality and lapses for this type of business, by comparing:
  - The sum of the addition to the life insurance provision for the portfolio at the beginning of the year, the life insurance provision related to the contracts sold in the year, and the claims, including surrenders; and
  - The sum of the net premiums from the portfolio at the beginning of the year, the net premiums related to the contracts sold in the year, and interest accretion of the life insurance provision;
- The revenue account for the industrial assurance department;
- The revenue account for the annuity department; and
- The general account. This account combined the results of all previous accounts to determine the total profit of the year and also showed the appropriation of this profit.

The publication of these additional schedules was highly appreciated in the insurance press, as is evidenced by an article of the journalist G.W.F.G. Eichhorn in 1922.\(^{351}\) He noted that, with this information, it was now possible to assess the actual development of a life insurer, since the schedules provided both the information related to the activities of the reporting year and the results from the portfolio built up in earlier years. In his view, the financial statements of the Groot-Noordhollandsche could be seen as one of the best examples of contemporary reporting practices. The company did not reveal a reason for the publication of these additional schedules, and I have not found one myself: the company was not represented in any of the committees involved in the developments of the Dutch financial or prudential reporting requirements. The schedules were aligned with the proposals of Kreukniet and Mees around 1905, described earlier in this section.

The profit and loss accounts of the two non-life insurers reviewed in this dissertation were very different. For the Nieuwe Eerste Nederlandsche, its format was very similar to the format applied by its parent company. However, there were a few observable differences:

\(^{351}\) Eichhorn (1922).
• In contrast to its parent company, the Nieuwe Eerste Nederlandsche presented the items of income first, and the charges second; and

• The practice of presenting incoming and outgoing technical provisions was maintained during the whole period, and not replaced by an approach that showed the additions to these provisions only.

The similarity with life insurers was, however, completely absent in respect of the format of the profit and loss account of the Nederlanden van 1845. The statement was split by business segment and showed, separately, the charges and items of income per segment. The charges included the technical provisions at the end of the year, while these provisions at the beginning of the year were part of income. The reserves at the end and the beginning of year were treated similarly, but were included in a section referring to all departments. This section also included expenses related to dividends, write-offs of doubtful debtors, interest and rental income, and gains and losses on securities. The profit and loss account of 1912 also included the impact of a share issuance: share premium was reported as income, and the related expenses as charges. The format of the profit and loss account was very similar to that under the UK 1870 life assurance companies act.

Overall, I conclude that the expected diversity in practice in respect of the layouts of the profit and loss accounts was confirmed by my findings. At the same time, it should also be noted that this diversity can be partly explained by the attempts of the reviewed companies to improve their reporting practices, in line with the government and industry developments described in the previous section on the prudential reporting developments.

4.5.3.1.4 The layouts of the cash flow statements
The financial statements of the companies reviewed in this period, generally, did not provide information regarding cash flows. However, the Groot-Noordhollandsche did provide, at the end of the 19th century, an overview of receipts and payments showing a large number of items split by department, instead of a profit and loss account. This statement was replaced by the profit and loss account in 1900.

A similar practice was found in the financial statements in the Algemeene Friesche. Next to the profit and loss account, which it first published in 1910, the financial statements in the period 1906-1913 also included a statement, named the ‘cash account’, showing cash receipts and expenditures, which was, in substance, a cash flow statement. Before 1906, a statement called the ‘receipts and expenditure account’ was presented, which, however, seemingly also included accruals. Since there were no clear notes providing further explanation of the items in this statement, it is not possible to determine whether or not this was also a kind of cash flow statement.

4.5.3.2 The presentation of movement schedules of reserves
Regarding the companies reviewed in this dissertation, the Utrecht, the Nederlanden van 1845 and the Nederlanden Leven did not present any movements schedules at all. Although the other companies did provide such information, it was not on a consistent basis.

The following observations can be made:
The Algemeene Friesche started to include these schedules only in 1910, although not for all reserves. They showed that the impact of accounting policies changes was booked directly in these reserves, and not in the profit and loss account. From 1920 onwards, the schedules showed the inclusion of unrealised and realised gains and losses on investments;

The Groot-Noordhollandsche provided movement schedules for the first time for 1904/1905. They showed that gains and losses on investments were not anymore included in the profit and loss account, but debited or credited to reserves. The movements in the extra reserve also revealed that amounts were, outside the profit and loss account, transferred directly to the life insurance provision;

The Olveh presented the schedules in all financial statements, except for the first, covering the period 1879-1884. They showed that, initially, the focus of building up buffers was on the security fund. It was created out of profit appropriation, mandatory and voluntary contribution of participants (against payment of a dividend), issuance of new shares, and expired dividends. When certain limits were reached, redemptions occurred. The creation of an extra reserve, built up from profits, started only in the period 1913-1918. During the period reviewed in this chapter, an investment reserve was established and depleted several times as well; however, its movements were not disclosed and, as a consequence, nothing can be said about the nature of additions and decreases of this reserve;

The Eerste Nederlandsche reported movement schedules of reserves for all years and for all reserves, except for the stock exchange value reserve, described hereafter when discussing the investments. The movements showed only additions from profit appropriation and releases to the profit and loss account;

In contrast, its subsidiary the Nieuwe Eerste Nederlandsche only presented these schedules from 1920 onwards. They did not cover all reserves: the movements in the security reserve and the stock exchange value reserve were not disclosed; and

The Nationale provided movement schedules for all reserves. They showed that the extra reserve was used to absorb those expenses that were considered of an extraordinary nature, such as expenses related to a court case in respect of the Belgian activities. The schedules also disclosed that the investment reserve included unrealised and realised gains and losses on investments: this is discussed hereafter. The reserve for expansion appeared to be used to absorb the cost of new business activities, including acquisitions. Finally, special purposes reserves were created and abolished, in the latter case generally by transferring any remaining balance to the investment reserve.

In summary, my conclusion is that there was a large amount of diversity on the reporting practices of the reviewed companies in this area.
4.5.4 The accounting treatment of investments

4.5.4.1 General observations in the literature

As investments represent the largest category of assets in the balance sheet of a life insurance company, it is not surprising that accounting for these assets raised considerable debate. This applied in particular to securities, since this was the main investment category in the period discussed in this chapter.\(^{352}\)

The literature showed proponents of measuring the securities at the stock exchange value, at cost, or at a variety of other methods based on the present value of future cash flows. It started with an editorial article in *De Verzekeringsbode*, which made clear that, around 1900, there was no common view on the accounting treatment of securities, in particular concerning fixed-income securities.\(^{353}\) According to Henriquez Pimentel, at the time the chief editor of the magazine, the measurement basis of the investment should be determined by the goal of the investment. And since investments were acquired to hold them to collect interest (to compensate for the interest charge related to the life insurance provisions), reporting them at cost was considered to be the best approach, and market value was rejected, unless this value was below cost: in that case, a reserve should be included under the liabilities for the amount of the difference. An opposite view was presented in 1901 by A.F.K. Hartogh, a lawyer and member of the Second Chamber, who argued that investments should be reported at the stock exchange value.\(^{354}\) In his view, this was the only way to present the “ware” (true) financial position of a life insurer, and to meet the requirements of the ‘Wetboek van Strafrecht’ (the ‘criminal code’), which prohibited the deliberate preparation of an “onware” (untrue) balance sheet. He noted that such a practice was applied by a vast majority of the Dutch life insurers. However, part of the system should be to include unrealised gains in a reserve, which should be large enough to charge any unrealised losses against.

In 1907, the debate was joined by Limperg.\(^{355}\) He observed a variety of opinions and practices regarding accounting for investments. He noted that stock exchange values were not always available and, if they were, they were not sufficiently reliable for balance sheet purposes. Furthermore, accounting for the daily fluctuations of stock exchange values, which were outside management control, was not in the interest of a life insurance company. For all these reasons, he rejected using this value as the basis for the balance sheet. Instead, he proposed a system under which the difference between the acquisition price and the estimated sales price of a security (which, in his approach, was limited to debt securities) was amortised evenly over the estimated remaining term of the title. Any changes in assumptions should be accounted for immediately. The contribution by Limperg was the start of a fierce debate in accountancy magazines. His proposals were strongly rejected by E. van Dien (another founding father of the Dutch auditing profession),\(^{356}\) C. de Jong,\(^{357}\) and Volmer.\(^{358}\)

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352 See table A8.21.
353 *Verzekeringsbode* (1900).
354 Hartogh (1901).
355 Limperg (1907).
356 Verweij (1909).
357 de Jong (1907).
358 Volmer (1907).
An alternative method was proposed by J. van der Hoop, who in 1908 advocated a system under which fixed-income securities were measured at face value. In response to this view, the lawyer and managing director of the Arnhem J. Kist argued that a better system was to measure these investments at their earnings-capacity value, using the same discount rate as was applied to the life insurance provision. The actuary C. Verweij noted that this approach was aligned with the proposals already made by B. Turksma, another actuary, in 1904.

Verweij also noted that the adverse stock exchange developments in 1906 forced companies to rethink their accounting policies, since they were, in their view, simply unable to continue using the stock exchange value as the measurement basis, as this would result in losses that did not reflect their long-term investment activities. At the end of that year, the stock exchange values had reached the lowest levels of the century. But, while providing an overview of the literature on investment accounting during the last few years, he observed that a simple solution was (still) not available: a debate held at a meeting organised by the Society for Life insurance in early 1908 showed that views still differed widely among the participants. According to Verweij, the appropriate approach was to determine the present value of the future cash flows of the security, and to create a reserve to cover adverse developments in the underlying assumptions. From the overview published by Verweij, Kist noted that, in general, two methods had received the largest support to account for securities: a system based on market prices, or a system based on present values of future cash flows. He preferred the second approach, but noted that the alternative approach could also be justified, based on the circumstances of the individual life insurer. However, he strongly rejected a cost approach, as it too much represented the past instead of the future.

A topic closely related to accounting for investment was raised in 1911 by H. Burgmans, another early Dutch auditor. He discussed whether unrealised gains were available for dividend distribution, and noted that neither Dutch legislation, nor companies’ articles of association defined net profits. But despite this absence, unrealised gains could, in his view, never be included in net profit, for the simple fact that they were – by definition – not realised. In practice, as Nijst described in 1913, most life insurers reported their securities at the stock exchange values. Gales noted that this forced life insurers just before the outbreak of the First World War in 1914 to write off large amounts, related to the developments on the stock exchange. As a result, the opinion was often heard that stock exchange values were irrelevant for life insurers, because of their long-term investment strategy. In practice, a number of companies had started to experiment with alternative approaches.

359 van der Hoop (1908).
360 Kist (1908).
361 Verweij (1909).
362 The origins of the Society were described earlier in this chapter in the section on the Dutch prudential reporting developments.
363 Kist (1909).
364 Burgmans (1911).
365 Nijst (1913a).
These specific circumstances at the stock exchange in 1914 resulted in a meeting between industry participants, discussing the consequences of this event on the accounting policies for their investments.\textsuperscript{367} In that meeting, of those participants that advocated a stock exchange value approach, some preferred using the quotations as at 31 December 1913 (as an approximation of a ‘normal’ value), while others chose to elect the normal end-of-the-year prices. In case the stock exchange would still be closed at that date, they would use the quotation of the last open day, i.e. 28 July 1914. But the other measurement systems described in this section were also brought to the attention as appropriate approaches. In the opinion of J.P. de Jager, the author of the article, a system of measurement at face value, accompanied with an investment reserve to cover future losses, was the most acceptable solution.

The debate continued during the war, when Verweij proposed in 1915 a measurement model for securities which depended on the characteristics of the instrument.\textsuperscript{368} For debt securities with a fixed redemption date, he suggested present value as the most appropriate approach. For debt securities without such date, cost should be the principle, and for other securities the most suitable basis should be stock exchange value. Another view was presented in 1917 by P.F.L. Merx, the managing director of a small life insurer, who observed that, until some years ago, measuring securities at stock exchange value was generally considered the only appropriate approach.\textsuperscript{369} Recently, this system had been strongly rejected, and more and more companies had introduced another system. In his view, cost – with face value as the maximum amount – was the most appropriate measurement basis.

An overview of accounting principles for securities in practice for the period 1912-1917 was provided by J.G. de Jongh, an auditor and later a Rotterdam professor, who presented the following table.

Table 4.7: Accounting principles for securities applied by Dutch life insurers in the period 1912-1917

<table>
<thead>
<tr>
<th>Accounting principle</th>
<th>1912</th>
<th>1913</th>
<th>1914</th>
<th>1915</th>
<th>1916</th>
<th>1917</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most recent market value (stock exchange value)</td>
<td>55</td>
<td>55</td>
<td>21</td>
<td>25</td>
<td>35</td>
<td>34</td>
</tr>
<tr>
<td>Acquisition price</td>
<td>5</td>
<td>7</td>
<td>14</td>
<td>19</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Mixed system</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Book value as at 31 December 1911, with subsequent investments at acquisition price</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Present value system</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Appraisal value published for estate tax</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Undisclosed</td>
<td>13</td>
<td>13</td>
<td>11</td>
<td>11</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>No securities</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Collateral value</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Stock exchange value as at 28 July 1914, with subsequent investments at acquisition price</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Stock exchange value as at 31 December 1913, with subsequent investments at acquisition price</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>13</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Stock exchange value as at 30 April 1914 (end of financial year)</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Appraisal value</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>82</td>
<td>82</td>
<td>83</td>
<td>83</td>
<td>84</td>
<td>82</td>
</tr>
</tbody>
</table>


\textsuperscript{367} de Jager (1914). I do not known whether such discussions were also held outside the life insurance industry.\textsuperscript{368} Verweij (1915).\textsuperscript{369} Merx (1917).
After these publications, the debate on the accounting principles for investments came to a halt, at least temporarily, since the focus of the industry and their advisors was more on the developments in the Dutch insurance industry and the new life insurance supervisory act, described in the previous section. Regarding actual practice, I have only identified one contribution in the literature in 1921, when de Lieme noted that write-offs of investments were generally charged to extra or special reserves, or compensated by recalculating the life insurance provisions at a higher discount rate.\textsuperscript{370}

4.5.4.2 The findings on the companies reviewed in this dissertation

During the period presented in this chapter, the investments of the companies reviewed in this dissertation consisted mainly of land and buildings, loans guaranteed by mortgages, and securities. Other investment categories were private loans, policy loans, bare ownership, usufruct, bills of exchange, and deposits. The categories were presented separately in the balance sheets. Investments in subsidiaries were, until 1924, included in securities.

Regarding the measurement principles in the balance sheet, a clear distinction should be made between the different investment categories.

Land and buildings represented only a small category in the balance sheet of most companies. Of those who reported these assets, three companies did not disclose their measurement basis, but their notes explained that, generally, the book values were consistently below the appraisal values. Three other companies applied the appraisal value, and one company reported that it measured its land and buildings at cost. At the same time, it held a reserve for depreciation, indicating that the actual basis may have been cost minus depreciation. Given the lack of additional information, however, this cannot be stated with certainty.

The accounting policies for private loans were disclosed by about half of the companies, which noted that they were reported at face value.

Concerning securities, a split is necessary in shares and debt securities. Although the investments in shares were not disclosed in the period reviewed in this chapter, the data in subsequent years strongly indicate that this category was very small, compared to debt securities and other investments. Most companies measured them at the stock exchange value, if they were listed; one company, however, used cost or lower stock exchange value at the beginning of the year until 1920. In case of non-listed shares, some companies mentioned that they used estimated values; however, most companies did not disclose their accounting policies for these instruments. Related to the outbreak of the First World War in 1914, the Nederlanden van 1845 and the Nederlanden Leven measured their shares in 1914 and 1915 at the stock exchange value as at the end of 1913, with subsequent purchases reported at cost. As table 4.7 shows, they were not alone in applying this system.

For debt securities, the companies generally used the stock exchange value, although one maximised it at the face value of the instruments. Another company applied, until 1920, the same system as it used to measure shares. And the Nederlanden van 1845 and the Nederlanden Leven, in 1914 and 1915, again looked at a previous stock exchange value.

\textsuperscript{370} de Lieme (1921).
A special system was applied by the Eerste Nederlandsche and the Nieuwe Eerste Nederlandsche in the period 1917-1923 for debt securities with a fixed redemption scheme and without collection problems. Under this system, a stock exchange value reserve was introduced, which represented the difference between the book value of the assets and the present value of the future cash flows from these assets, calculated with a discount rate of 4%. The amounts were reported as an additional asset and as a reserve, so had no impact on the profit and loss account. The sum of the two assets represented the present value of the future cash flows, based on the discount rate of the life insurance provision. This was the system advocated by Kist in 1908, described earlier in this section. The accounting treatment of unrealised and realised gains and losses on investments under this system was not disclosed. However, as the profit and loss account included such gains and losses and there were no direct movements in the reserves for such items, it can be concluded that all gains and losses from investments were reported in the profit and loss account.

This overview shows that there were, with some exceptions, a lot of similarities in the measurement bases for the investments. This was, however, not the case for the recognition of unrealised and realised gains and losses on investments. The accounting policies on this topic were, generally, not disclosed. Furthermore, for most companies they could not be derived with certainty from other available information, since either movement schedules were absent or insufficiently specific, or included separate lines for such gains and losses, which lines also appeared (without further notes) in the profit and loss account. Therefore, the following observations only present those accounting policies which could be clearly identified.

There was one company that included all gains and losses until 1905 in the profit and loss account, and subsequently in the reserves, and two other companies which consistently included all gains and losses on investments in the profit and loss account.

The treatment of unrealised and realised gains and losses on investments of a fourth company, the Nationale, was not completely clear during the whole period. According to the overview of accounting policies, derived from the financial statements, both were, from 1915 onwards, debited or credited to the investment reserve. However, the movement schedule of this reserve shows that unrealised gains and losses on loans guaranteed by mortgages, and realised gains and losses on securities, were included in this reserve as well. At the same time, such realised gains and losses on land and buildings and on securities were, until 1915, included in the profit and loss account. The financial statements did not include sufficient disclosures to explain the relationship between these two types of bookings. In the period 1915-1923, the profit and loss account included realised gains and losses on land and buildings only: realised amounts related to securities were included in the investment reserve. In this respect, the disclosure of the accounting policies did not clarify that there was a distinction between the two categories of investments. The confusion returned in 1924, when unrealised gains and losses on securities and on land and buildings were reported in the investment reserve, while realised gains and losses on securities were included in both the profit and loss account and in the investment reserve. As was the case for most other companies, there was insufficient information available to determine the actual accounting policies in practice.

Overall, my conclusion is that the variety in measurement for debt securities in the financial statements of the reviewed companies was much less than was observed for the industry as a whole.
The reviewed companies generally used the stock exchange value, and there was no trend towards an increased use of the acquisition price, in contrast to what Merx described in 1917. Because the stock exchange value was used, the debate on the use of secret or undisclosed reserves, described under the Dutch financial reporting developments, was not relevant for this major investment category. However, diversity did exist in respect of the reporting practices for unrealised and realised gains and losses, a topic that was not much discussed in the literature. My review shows that the accounting policies for such gains and losses were not always or sufficiently clearly disclosed, and if they were, they varied between companies and over time. It was, in my view, in particular in this area that the described complaints about the lack of transparency of the financial statements of insurers were justified.

4.5.5 The accounting treatment of technical provisions

4.5.5.1 General observations in the literature

The third large area of debate in the literature concerned the appropriate method to determine the life insurance provisions, which was, by far, the largest liability in the balance sheet of a life insurance company.\(^{371}\) This started in the early 1880s, since, as C.L. Landré, the actuary of the Algemeene, explained, at the time that Royal approval of the premium rates was required, life insurers were legally obliged, when calculating the life insurance provisions, to use the same assumptions as included in these approved rates.\(^{372}\) When, as is described in the section on the Dutch prudential reporting developments, this Royal approval mechanism disappeared in 1880, the issue of a choice of methodology came fully to the surface.

The first problem that was identified concerned funeral funds. According to Wiebes Leemans, around 1880 it was not usual for these funds to calculate their life insurance provisions.\(^{373}\) To his knowledge, the first fund to do so was Let op uw einde.\(^{374}\) Soon after, some other large funeral funds followed, including the Groot-Noordhollandsche.\(^{375}\) However, most funeral funds allocated the difference between incoming and outgoing cash flows to their reserves (i.e. equity) and hoped that these would be sufficient to cover all future claims.

But the discussion concerned mainly life insurance companies. As is described in chapter 2, there were several methodologies to determine the life insurance provisions.\(^{376}\) The first article on this issue was published at the end of 1882 by Landré, who observed that the application of a method resulting in negative provisions was undesirable, and happily noted that it was highly unlikely that the gross premium method was still applied in practice.\(^{377}\) However, in early March 1883 this view was strongly contradicted by van Schevichaven Sr., who advocated a kind of adjusted gross premium method.\(^{378}\)

\(^{371}\) See table A8.20.  
\(^{372}\) Landré (1892).  
\(^{373}\) Wiebes Leemans (1933).  
\(^{374}\) As is described in section 3.3.2, this was a predecessor of Fortis.  
\(^{375}\) This was a predecessor of AEGON, see section 3.2.2.  
\(^{376}\) See section 2.8.2.3.3.  
\(^{378}\) van Schevichaven Sr. (1883).
In the view of van Schevichaven Sr., the net premium method resulted in too prudent provisions, giving room to an attitude of being too easy on expense control. If, however, the application of the (adjusted) gross premium method would result in a deficit, this could be resolved by adjusting the mortality rates used to calculate the life insurance provisions. In response, Landré pointed out in 1887 that the real debate about the method to determine the life insurance provisions should be about the level of surcharges available in the premiums to cover the expenses and adverse developments, and to deliver a profit. In his view, this was much more important than a choice for the gross premium method or net premium method. Regarding industry practices, van Geer noted that some companies disclosed in the 1880s the methods and assumptions applied to calculate the life insurance provisions; others remained completely silent on this issue.

During the next 15 years, there were hardly any publications on the issue. However, it should be assumed that the debate continued in the background, since it was still unresolved. This assumption is confirmed by an article published in 1902 by F. van Reenen, who pointed out that the debate on the methods to determine the life insurance provision was fuelled by the increased competitiveness in the Dutch life insurance market, resulting in an increase of acquisition commissions. Given the variety of methods, Censeo wondered in 1906 why there was still so much resistance to publish the methods applied and the premiums used.

To support his implicit request for additional disclosures, Censeo published in 1908 the results of a review of the Dutch life insurance market in respect of the methods they applied. He grouped the 87 reviewed companies under five headings:

- 26 companies (30%) used the net premium method;
- 28 companies (32%) used another method, and disclosed the reserve premiums applied;
- 14 companies (16%) used another method, but did not disclose the reserve premiums;
- 13 companies (15%) did not disclose their methods at all; and
- 6 companies (7%) had not provided their annual accounts for his review.

Regarding the developments in practice, Nijst observed in 1913 a growing tendency under actuaries to oppose the application of the net premium method. He also noted an increasing number of companies that, when applying this method, capitalised and amortised acquisition costs as an asset, under a number of different headings.

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379 For a proper understanding of this debate, it is important to remember that the Algemeene, of which van Schevichaven Sr. was the managing director, went bankrupt in the early 1920s because of the combination of underreserving, bad investments and too high initial and ongoing expense levels for which the life insurance provisions did not provide coverage. Further information on this event is presented in the section describing the Dutch prudential reporting developments.

380 Landré (1887).
381 van Geer (1888), p. 89.
382 van Reenen (1902).
383 Censeo (1906).
384 Censeo (1908).
385 Table A8.11 shows that, in 1905, there were in total 112 Dutch life insurers active in the market. His coverage ratio was therefore almost 80%.
386 Nijst (1913b).
387 As is explained in section 2.8.3, combining the capitalisation and amortisation of acquisition costs with the net premium method can, if certain conditions are met, bring the same result as the gross premium method.
Also in 1913, J.A.L.M. Struycken, an actuary of the Utrecht, explained that there was indeed large resistance, both under actuaries and under practitioners, against the net premium method.\(^{388}\) In his view this was not because the method was inherently inappropriate, but since this method limited the expansion capabilities of companies. As a result of increased competition, premium rates continued to decrease, and expenses to increase. Accordingly, application of any other method than the net premium method created enlarged risks of future insolvencies, which, he argued, should be avoided.

This view was one year later strongly rejected by Kist, who argued that the net premium method incorrectly assumed that expenses occurred evenly over the term of the insurance contract.\(^{389}\) In his opposition, he was joined by de Lieme, who noted that under the net premium method no provisions were created for future administration expenses.\(^{390}\) In particular for annuities against payment of a single premium this resulted in too low provisions. Furthermore, the method applied should not be based on the assumptions underlying the premium rates, but be adjusted based on actual experience regarding interest, expenses, and mortality: each of these parameters should be prudently estimated, with a margin for adverse developments. Only in this way economic and demographic developments (e.g., regarding improved life expectancies) could be taken into account, and resulted in sufficient provisions. Regarding the methods in practice to calculate the life insurance provisions, the survey on the reporting practices for the years 1912-1915, mentioned earlier in this section, identified large differences, including the way in which the shares of policyholders in the profits were determined and reported.\(^{391}\)

The debate on methodologies continued in 1921, when an insurance magazine published the text of a lecture by A.C. Meijer on the topic of reserving methods.\(^{392}\) He noted that a review of the practice of 92 companies revealed that 45 companies (49%) used the Zillmer method, 29 (31%) used net premium method, and 18 (20%) the adjusted gross premium method. Of these three alternatives, he favoured the last, since this was, in his view, the only method that took account of all relevant factors, i.e. mortality, interest, and expenses. However, it should be accompanied by an additional security provision, to cover adverse developments. In particular this last element triggered an intense debate, in which several participants rejected Meijer’s proposals, arguing that the necessity of this additional provision already demonstrated that the adjusted gross premium method resulted in insufficient provisions, and should therefore be rejected. According to Liefrinck-Teupken, the variety in practice in 1920 was even larger than Meijer described.\(^{393}\) There were not only different reserving methods, but within these methods there was an enormous variety in mortality tables, interest rates, and reserve premiums used in the calculations. There even had been cases where the surcharge on the net premiums was changed from year to year, while maintaining sufficient certainty about the adequacy of the life insurance provisions, to make both policyholders and shareholders happy.

\(^{388}\) Struycken (1913).
\(^{389}\) Kist (1913).
\(^{390}\) de Lieme (1913).
\(^{391}\) Commissie monopolisering (1918).
\(^{392}\) Meijer (1921).
\(^{393}\) Liefrinck-Teupken (1921).
According to the actuarial professor A.O. Holwerda, at the time the mathematical advisor of the Groot-Noordhollandsche, the differences in methodologies could simply be explained by their financial position.³⁹⁴ In his experience, companies with large extra reserves generally applied the net premium method, while others reported under the gross premium method.

Statistics regarding the discount rate applied by individual companies were collected and published in the annual editions of the ‘Nederlandsche Almanak voor Levensverzekering’ (the ‘Almanak’), first published in 1898 with statistics regarding the year 1896. This publication showed that for most of the Dutch predecessors of the companies reviewed in this dissertation, the applied discount rate for the larger part of the period was 3.5-4.0%, although some smaller companies also used 3%.³⁹⁵ In line with the developments in interest rates at the end of the period, several companies increased the top of their range of discount rates to 4.25%.

When commenting on the past debate on reserving methods in his publication in 1986, Gales noted that it was, in the period reviewed in this chapter, particularly focused on whether the underlying assumptions should reflect actual developments or be based on the premium rates, and especially how to deal with the increasing expense levels, caused by intensified competition.³⁹⁶ Although during a large part of the 19th century companies had selected prudent parameters, leaving room for adverse developments and profits, the beginning of the 20th century showed increasing evidence that opinions had changed, and that economic realities should be reflected. At that time, most young companies, which could not afford to apply the net premium method, experimented with alternative approaches, spreading expenses over multiple reporting periods. Just before the First World War, the net premium method was considered unattainable. However, an agreement over the appropriate alternative method was not yet in sight.

4.5.5.2 The findings on the companies reviewed in this dissertation
The first issue in respect of the technical provisions concerns the presentation of reinsurance coverage in the balance sheet. All companies, generally, presented, for the whole period, their provisions net of reinsurance, although one company presented until 1915 the reinsurer’s share as an asset.

The second issue deals with the distinction between life and non-life insurance provisions. Regarding the life insurance provisions, chapter 2 noted that the most important factors in determining these liabilities were the methodology and the discount rate.³⁹⁷ Since these factors were not systematically disclosed in the financial statements by all companies, the collected data are complemented by the statistics included in the annual overviews of the Almanak to complete my analysis of the reporting practices. The findings are summarised in the table presented hereafter.

³⁹⁴ Holwerda (1922).
³⁹⁵ Almanak (1898-1922).
³⁹⁷ See section 2.8.2.3.
Regarding the frequency of calculating the life insurance provision, the annual statistics in the Almanak, available from 1903 onwards, show that most companies did this on an annual basis. Some companies reviewed in this dissertation did this on a multi-year approach: the Algemeene Friesche every three years until 1905, the Eerste Nederlandse over a three year period in 1920-1922, and the Nationale every three years until 1929, when it switched to an annual basis. Only the Olveh continued its practice of triennial calculations until 1924.

Table 4.8 Actual methods and discount rates to determine the life insurance provisions in the period 1880-1924

<table>
<thead>
<tr>
<th>Year</th>
<th>1880</th>
<th>1885</th>
<th>1890</th>
<th>1895</th>
<th>1900</th>
<th>1905</th>
<th>1910</th>
<th>1915</th>
<th>1920</th>
<th>1924</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algemeene Friesche: net premium method</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.0-3.5%</td>
<td>3.0-3.5%</td>
<td>3.0-3.5%</td>
<td>3.0-3.5%</td>
<td>4%</td>
<td>3.5-4.0%</td>
<td></td>
</tr>
<tr>
<td>Groot-Noordhollandsche: net premium method</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3%</td>
<td>3%</td>
<td>3.04%</td>
<td>3.07%</td>
<td>3.36%</td>
<td>3.51%</td>
<td></td>
</tr>
<tr>
<td>Olveh: net premium method, from 1915 Zillmer method</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.5%</td>
<td>3.50%</td>
<td>3.5%</td>
<td>3.50%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Eerste Nederlandse: Zillmer method, from 1905 net premium method</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utrecht: net premium method</td>
<td>-</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nederlanden Leven: net premium method</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.3%</td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td>Nationale: net premium method with additional expense provision</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>3.5-4.0%</td>
<td>4%</td>
<td>3.5-4.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Almanak (1898-1926).

This overview shows that the net premium method was applied most, in one case with an additional expense provision as advocated by de Nieme in 1913. This was in contrast to the observations in the literature, which showed that this method was only applied by about 30% of the total number of companies in the 1910s. The trend to apply the Zillmer method was only followed by the Olveh. A possible explanation was provided by Holwerda, when he linked the size of the company to the method applied: the Algemeene Friesche, the Eerste Nederlandse, the Utrecht and the Nationale were all companies of a considerable size. Since the net premium method was the most prudent of all available methodologies, there were (considerable) undisclosed reserves in the life insurance provisions of the selected companies.

To assess the appropriateness of the discount rate, it is necessary to look at the developments of the short-term and long-term interest rate first. They are shown in the figure hereafter.

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398 Almanak (1905-1926).
399 See annex 6.
400 See section 2.8.2.3.3.
This figure reveals that, during the period 1815-1920, the long-term interest rate declined from over 6% in the beginning of the period to somewhat under 3% at the end of the 19th century, but increased again to almost 6% in 1920. The fluctuations in the short-term interest rate showed even more volatility, with a decrease from about 8% in 1815 to somewhat over 2% in 1895, and a subsequent increase to 4% in 1920. The discount rate was, in most cases, between 3.5% and 4%. A comparison of this rate with the overview of interest rates presented in figure 4.2 shows that these discount rates were higher than the long-term interest rates between 1885 and 1915, but (substantially) lower in subsequent years.

As far as presentational issues were concerned, the only company that systematically provided the composition of its life insurance provision over the whole period was the Nationale.

Overall, my conclusion is that the diversity in methods and assumptions to determine the life insurance provision was significantly less than could be expected from my review of the available literature.

Regarding the non-life insurance provisions, the Eerste Nederlandsche provided no information on its methods to determine these liabilities. For the Nieuwe Eerste Nederlandsche, the only disclosure was made in 1920, when the company reported that it discounted the claims outstanding under the accident act 1901 with 3.5%. Some more information was available for the Nederlanden van 1845 from sources outside the financial statements, since its accounting policies were, generally, not disclosed: the only statement was made in 1924, when it revealed that the provision for unexpired risks (also called, the provision for unearned premiums) in the fire insurance business was calculated as 50% of written premiums. Barendregt and Langenhuyzen explained that this policy was incorporated in the articles of association of the company since 1888, the year of the merger between the company and its subsidiary De Nederlanden van 1859.401

401 Barendregt and Langenhuyzen (1995), p. 66. See also section 3.4.2.
Information regarding the accounting policies in the other business segments of the Nederlanden van 1845 was not provided. On the provision for claims outstanding, Barendregt and Langenhuyzen noted that the company started, in 1923, to create an undisclosed equalisation reserve, to level out the claims over the years. This was done to compensate for the decision to stop reinsuring domestic insurance business in 1922, and to start increasing considerably the non-domestic business in the near future.

4.5.6 The accounting treatment of long-term employee benefits
The accounting practices on these benefits varied between the companies and in the period, although none provided any information on the contents or accounting policies of such schemes.

Three companies provided no information at all. Of the remaining companies, most reported a separate amount in the balance sheet, in the profit and loss account, or both. The liabilities were created out of the extra reserve, as part of the profit appropriation, or reported under charges. The balance sheet of one company showed that the pension liabilities were a separate component of the life insurance provision, and another included the pension premiums as charges as well as income, which is, in my view, a clear indication that the pension liabilities formed part of the life insurance provision as well. The other companies did not disclose whether the obligations were transferred to an external party (e.g., a pension fund) or were carried by the company itself.

4.5.7 The accounting treatment of taxes
As is described in the beginning of this chapter, different tax regimes were applicable in the period. Until 1 May 1894, taxes were only applicable to joint stock companies and charged on distributions to shareholders and similar participants. From that date onwards, the tax basis remained the same, but mutual insurance companies were included in the scope of the new tax regime. This system stayed in place until 1918, when the tax basis was expanded to dividends as well as bonuses to the board members and the staff of a company.

These regimes meant that tax had to be paid every time when dividends were paid or, from 1918 onward, bonuses were distributed. This was, however, not always visible in the financial statements. Although some companies consistently presented tax in their income statement with disclosure of the nature of the tax charge, most companies did not disclose the amounts at all or not consistently during the whole period. This was also the case when the profit appropriation was integrated in the profit and loss account, and not shown separately.

4.5.8 The presentation of segment information
Regarding segment information, data were provided only by a small number of companies.

The first was the Groot-Noordhollandsche, which showed, until it legally converted from a funeral fund into a life insurer in 1910, separately a number of key amounts for its two departments: investments, reserves, life insurance provisions, claims, premiums, and rental income. This change was the only one observed before and after the legal transition.

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403 See section 3.2.2.
The Eerste Nederlandsche showed initially two departments as well: one for life insurance business, and another for accident insurance business. The activities, assets and liabilities of the second department were transferred to the Nieuwe Eerste Nederlandsche at 1 January 1903. Before this transaction, the reserves and the technical provisions were split by department, and the company also showed separate profit and loss accounts. In the accounts of the Nieuwe Eerste Nederlandsche, the technical provisions, claims and expenses for accident business under the accident act 1901 were shown separately.

Finally, the different business segments of the Nederlanden van 1845 were clearly presented separately in its profit and loss account. In the balance sheet, only the technical provisions were split. The statements clearly showed the transfer of the life insurance business to the Nederlanden Leven in 1914.

4.5.9 The accounting treatment of business combinations

As is described in chapter 3, all companies, apart from the Nederlanden Leven, were involved in larger or smaller acquisitions in the first decades of the 20th century. Most of these transactions concerned portfolio transfers. None, however, disclosed their accounting policies on this topic. On the other hand, a number of financial statements did include information on the acquired businesses or portfolios.

The earliest business combination occurred in 1893, when the Utrecht accepted the portfolio of Let op uw einde. The profit and loss account of that year showed an amount of single premiums of NLG 2.3 million, while the usual amount at the time was around NLG 0.1 million. The balance sheet showed an increase of total assets from NLG 1.5 million to NLG 4.1 million, and the life insurance provision moved from NLG 1.1 million to NLG 3.6 million. These amounts clearly indicate, in my view, that the portfolio transfer was treated as the conclusion of a new insurance contract. The same accounting treatment was visible in the 1918 and 1919 financial statements. In both years, large amounts were reported under income under the name ‘balance of assets less liabilities’. However, an analysis of the full profit and loss account showed that these items of income were fully compensated by charges, in particular additions to the life insurance provision and claims: on balance, there was hardly any impact on the result for the years. This indicates that, economically, the amounts were more like single premiums, and had no relationship to goodwill. Neither the financial statements, nor any available literature specified which business combinations were involved.

Treating the transaction similar to the conclusion of a new insurance contract was also applied by the other companies. In some cases, the accepted life insurance provision was presented as a separate line under income and not as part of the single premiums, but the economic effects were the same: in all cases, any charges or income related to business combinations were reported in the profit and loss account, without the identification of any separate goodwill. In one case, the annual accounts provided specific details on the acquired portfolio: this concerned the Dutch portfolio of the Algemeene, obtained by the Algemeene Friesche in 1922.

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404 See section 3.2.3.
405 See section 3.4.2.
406 See section 3.3.2.
407 See section 3.2.2.
4.6 Summary and conclusions for the period 1880-1922
As is described in the introduction to this chapter, the purpose of the descriptions is to answer, per individual time slot, the four remaining research questions:

1. 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?
2. 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?
3. 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?
4. 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 for the period 1880-1922 are provided hereafter. Since there were no relevant European or global organisations in the period, the descriptions focus on the UK, the US and the Netherlands.

4.6.1 The developments in respect of financial reporting requirements
Before summarising the financial reporting developments, first an overview is presented of the developments in the Dutch society and its insurance industry, to provide the historical context in which they occurred.

The analysis shows that Dutch insurers operated in an environment of growth, in particular in the second half of the 19th century: the economy improved and GNP per capita increased. Combined with higher life expectancies, this created growth opportunities for insurance companies.

Initially, these were captured by funeral funds, until they were, in the last decades of the century, completely overtaken by modern life insurance companies. Subsequently, the beginning of the 20th century witnessed a continued growth of the population and the economy, and the first steps in the establishment of a government-created social security system for employees. To capture the opportunities in the market and to control the risks, this period also saw the formation of the first groups of life and non-life insurers.
Regarding financial reporting developments in the UK, the first steps occurred already in the early 18th century, with the adoption of the so-called ‘Bubble act’. After more than a century, this act was followed, in the first half of the 19th century, by a number of consecutive companies acts, and, already in the 1840s, the concept of a ‘full and fair’ balance sheet was included in legislative requirements. In the 1860s, this was expanded by the inclusion of a recommended format for the balance sheet. However, the focus was on providing financial information to shareholders only, and requirements in respect of the profit and loss account, the accounting principles to be applied, and the publication of financial statements (i.e. making them available to the public at large) were lacking. This changed with the adoption of the 1907 companies act, which required all public companies (i.e. those companies that were allowed to make any public offering of their securities) to publish their annual balance sheet by filing it with the Board of Trade. However, at the same time, the recommended format disappeared, leaving the companies completely free to report in the way they wished. An exemption was made for life insurance companies, if they reported in accordance with the prudential reporting requirements established in 1870, described later in this summary, or, stated differently, if they applied a type 1 single-track reporting approach. The legislative gaps in respect of financial reporting requirements for other than life insurance companies were not filled by other parties, such as the auditor’s profession. Although there were debates on the acceptability of secret and undisclosed reserves, and, at the very end of the period, on the preparation of consolidated accounts, these debates did not seem to have had a major impact on the actual reporting practices of UK companies in respect of any of the selected elements of financial reporting reviewed in this dissertation.

My conclusion on the UK financial reporting developments is that, although the foundation was laid in the form of the requirement of the ‘full and fair’ view, there was, effectively, no comprehensive set of general financial reporting requirements established by the legislator or by developments in practice to provide further guidance on what such a view effectively meant. On the other hand, after an initial focus of providing information to shareholders only, the 1907 companies act did introduce the first step of providing financial information to the public at large in case companies were allowed to offer their securities to the public, i.e. a focus on investors. And UK life insurance companies were allowed (but not required) to adopt a type 1 single-track reporting approach.

In the US, legislative action with respect to financial reporting was completely absent. Although some critical reports were issued, which recommended necessary changes, nothing happened. It was only after the NYSE, in 1899, started to require the publication of financial reports by listed companies that initiatives were developed to introduce some kind of financial reporting requirements. These initiatives came, in the mid-1910s, from the auditing profession that, supported by two influential government bodies, took the lead in attempts to systematically improve the quality of the financial statements. They did this by issuing recommendations regarding the layouts of the balance sheet and the profit and loss account. In these efforts, they were supported by developing state legislation in respect of prospectuses, and, around 1920, by requirements of the stock exchanges and the tax authorities to produce consolidated financial statements by listed companies and tax filers.

In respect of the US developments, I conclude that, although a comprehensive set of requirements was absent as well, the NYSE and practice started to take the lead in improving this situation in the form of a clear move towards the preparation and publication of consolidated accounts, in the interest of investors, without, however, specifying the contents of such statements.
Regarding the Dutch developments, the descriptions show that there were hardly any legislative developments in the area of financial reporting requirements. The only requirement, effective in 1838, focused on providing annual financial information to the shareholders, not to the public at large. Several government bills, focusing on joint stock companies, were submitted in the second half of the 19th century and the beginning of the 20th century, making reference to the developments in several other European countries, including the UK, but not to those in the US. However, these bills, 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 the private companies: Parliament wanted an exemption for this group, and the government did not. As a result of this deadlock situation, nothing changed, and companies were, during the whole period, only subject to the provisions of the commercial code adopted in the late 1830s, which did prescribe the annual preparation of a balance sheet, but included no requirements concerning its contents, the accounting principles to be applied, or the publication of such a document. Regarding the actual practices, the main debates in respect of non-insurance companies focused, as was the case in the UK, on the acceptability of secret and undisclosed reserves, with some consensus that the first category should be prohibited and the second could be acceptable.

Concerning the financial statements of insurance companies, the debate, which occurred primarily between industry participants, concentrated mainly on life insurers: regarding non-life insurers, the observations generally limited themselves to complaints on the lack of transparency. For life insurers, the discussions were centred on the following topics:

- The layouts of the financial statements, which differed between companies, and often resulted in non-comparability because profit and loss accounts were not always provided on an annual basis or did not show the annual results;
- The investments, where the debate focused on the measurement basis in the balance sheet; and
- The life insurance provisions, with strong proponents and opponents of the net premium method to determine these provisions.

Overall, my conclusion it that it is clear that there was no effective legislation in place, and that practice showed, both within and outside the insurance industry, a large variety, fuelled by widely divergent views on the contents of the financial statements and the desirable accounting policies. At the same time, it is also clear that the developments in the UK and, to a lesser extent, in the US were actively monitored in the Netherlands and had an impact: in several attempts to introduce Dutch financial reporting requirements, reference was made to the developments in other countries, including the UK.

**4.6.2 The developments in respect of prudential reporting requirements**

In the UK, prudential supervision of insurance companies already started at the end of the 18th century. However, the main steps were taken in the second half of the 19th century, in particular with the adoption of the first life assurance companies act in 1870, after the demise of some large companies in 1869. Before the adoption of this act, insurance companies’ accounts were considered as “confusing” and “unsatisfactory”, from which “no useful information could be derived”.

Under the act of 1870, UK 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’. However, accounting policies were not prescribed, and the calculation of the life insurance provisions was not required annually, which triggered a number of critical comments on the quality of the financial statements between such calculation dates. This relief in respect of annual calculations was a clear difference with the requirements in the ‘general’ companies acts, described before. The main structure of the 1870 act was maintained in its successor, the 1909 assurance companies act. This act expanded, 40 years after the start of life insurance supervision, the scope of the prudential reporting requirements to almost all insurance companies. While it, on the whole, did not revise the requirements in respect of the balance sheet, it introduced separate revenue accounts for five different classes of insurance business, the balances of which came together in a profit and loss account. Solvency requirements were limited to minimum deposits, which can, however, in my view, be seen as an early form of a required solvency margin.

I conclude that insurance companies in the UK were subject to specific prudential reporting requirements (including publication) in response to disasters within their industry, resulting in the publication of balance sheets, profit and loss accounts, and revenue accounts already since the 1870s, at a time when other companies (still) enjoyed almost complete freedom as far as the preparation and publication of financial statements were concerned. However, as there was no form of active supervision, I also conclude that prudential supervision was still in a rudimentary stage.

Insurance supervision in the US was also based on legislation, but only on state level with the establishment of state supervisors and the requirement to submit to them (but not to the public at large) prudential returns, which included annual calculations of the technical provisions. Attempts to coordinate the developments on a national basis occurred, in particular, through the NAIC, established in the 1870s. However, these attempts only resulted, from 1910 onwards, in standards for the valuation of securities. On state level, the developments showed a quicker pace, in particular in New York. This state, which was characterised by several authors as the leader in insurance supervision, took, starting in 1859, the lead in a number of developments. This process was accelerated when, in response to a number of scandals in the New York insurance industry, the legislative requirements in this state were significantly strengthened in the beginning of the 20th century. The New York legislative changes resulted in the introduction of prescribed accounting policies and required solvency margins, but also of strict limitations on the business activities of insurers), effective (through a special rule in the legislation) throughout the US.

My conclusion on the US is that, although the developments in the US followed a similar pattern as in the UK (prudential reporting requirements were introduced by legislators in response to scandals in the industry, at a time that reporting requirements for other companies were still completely absent), the establishment of an active supervisor of insurance companies and limitations on the business activities of insurers made the US system quite distinct from that in the UK. However, although prudential returns had to be submitted to the insurance supervisors, providing financial information to the public at large was not required. As a consequence, a single-track reporting approach was not applicable.
In the Netherlands, life insurers were subject to a level of supervision since the beginning of the 19th century. However, this was limited to the requirement that they had to obtain advance (Royal) authorisation to carry on life insurance business. To achieve that goal, life insurers had to submit their premium and benefits rates to the government, prepare and make available to policyholders an annual report, and prepare and provide to the same group, at least every five years, an extensive balance sheet disclosing the ‘true’ financial position of the company. However, in 1880 the Dutch Supreme Court declared this system unconstitutional, which was the start of a long period of uncertainty with, effectively, no legal supervisory system at all.

To resolve this situation, a number of initiatives were employed, varying from three advisory committees reporting in 1885, 1897 and 1920, proposals in 1900, 1903 and 1910 from the life insurance industry itself, and a government bill in 1912. In all these reports and proposals, the US approach was rejected as being overprescriptive, and the UK ‘freedom with publicity’ approach with mandatory reporting schedules was endorsed as the basis for Dutch legislation, although they showed a significant variety in respect of the manner to implement this approach. However, there was also a level of recognition of the limitation of the UK approach: several proposals suggested the establishment of a life insurance supervisory authority, to assist the uneducated Dutch public in the technical complexities when assessing the financial position of a life insurance company. During about 40 years after the 1880 rulings of the Supreme Court, none of these proposals received sufficient parliamentary and industry support, in particular because there were widely differing views concerning the contents of the proposed publication requirements: while some considered them as too extensive, others advocated more detailed reporting schedules. Furthermore, the debate focused on the role and the power of the supervisory authority, where views diverged as well.

These debates and stand-still situation ended abruptly in 1920, when the largest Dutch life insurer was forced to go into run-off and start a liquidation process, followed shortly after by number two in the market. To protect the interest of the policyholders as much as possible, the government submitted, in February 1921, a bill for an emergency act to Parliament, which was adopted in a few months. Soon after, a bill to implement a life insurance business act was submitted in October 1921, which was fully adopted in December 1922 and created the Insurance Chamber as the supervisory authority for life insurance companies. The introduction of a kind of required solvency margin was discussed several times over the period, but, ultimately, not implemented.

Regarding the Dutch prudential reporting requirements, I conclude that it, also, took a financial disaster to resolve fundamental differences in view between politicians: only after the fall of the Algemeene, Parliament and the government were able to agree on the necessary legislative requirements, which resulted, at an unprecedented speed, in an emergency act and the first insurance supervisory legislation. As was the case for the financial reporting requirements, UK legislation was a primary source of reference in these developments. As a result of these developments, life insurers were, after a very long period of legislative freedom, subject to extensive reporting requirements to the supervisors and to the policyholders, and active supervision from the mid-1920s onwards, at a time that other companies were hardly subject to any reporting requirements. Non-life insurers were, however, not yet subject to insurance supervision. As in the UK, it would take another 40 years before this would be the case. Since, however, there were no detailed financial reporting requirements to inform the public at large, a single-track reporting approach was not applicable.
4.6.3 The relationship between financial and prudential reporting requirements

Concerning the relationships between the two sets of reporting requirements, the developments in all three countries reviewed in this chapter resulted in the same conclusions: financial reporting requirements for insurance companies were either non-existing or very limited, and insurance supervision, if existing, triggered the reporting requirements for this industry:

- In the UK, this was caused by the companies act exemption allowing (but not requiring) them to adopt a type 1 single-track reporting approach, although the financial press noted that many companies issued only much abbreviated statements to their shareholders. However, compared to the reporting requirements for other companies, insurers were subject to a much more severe regime;
- In the US, financial reporting requirements were virtually absent, while (strict) prudential reporting requirements were introduced; and
- In the Netherlands, financial reporting requirements were absent as well, but there was also a lack of prudential reporting requirements, since (life) insurance supervision was only established at the end of the period reviewed in this chapter. At the same time, the attempts to introduce prudential reporting requirements produced, in my view, much more extensive proposals concerning the balance sheet and the profit and loss account than those focusing on the general financial reporting requirements, although it was not required to calculate the life insurance provisions on an annual basis. And, as the overview of actual reporting practices, presented next, shows, these proposals already influenced such practices even before they resulted in final legislation.

In this legislative environment, Dutch insurance companies did exist and had, in compliance with the limited legislative requirements and their articles of association, to publish financial statements. How they met this obligation is discussed next.

4.6.4 The actual reporting developments and choices

The first observation derived from my analysis of the financial statements of the companies reviewed in this chapter is that not all of them prepared them on an annual basis, and, if they did, these statements did not always include a profit and loss account. Comparative figures were also not provided. Cash flow statements were only published by two companies in a period that they did not present profit and loss accounts, and were absent subsequently.

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 structure of the balance sheets and 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, and the formats of the profit and loss accounts of a few companies showed similarities with the formats of the UK (life) assurance companies acts.

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 included, in one way or another, in the profit and loss accounts of a large number of companies, some companies did not provide this information separately, but directly allocated its components, invisibly, to the lines in their profit and loss accounts. As a result, not all companies showed 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, for a considerable part of the period reviewed in this chapter, most companies applied 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 company, the Nationale, which provided supplementary information in its annual accounts prepared in accordance with, initially, the UK 1870 life assurance companies act, followed by the 1885 proposals of the first government advisory committee, and those included in the 1912 government bill. And the Groot-Noordhollandsche 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.

All these developments resulted in a gradual increase in the size of the financial statements of all insurers. This size expanded significantly in 1924, when the companies, without saying so, already adopted the schedules of the 1922 life insurance business act in practice, although these were mandatory only one year later.

The next topic concerns the selection of accounting policies and the mandatory and voluntary changes therein. The comments in the available literature observed that practice showed a wide variety as far as accounting for investments and the life insurance provisions were concerned. There was, on both topics, strong support for as well as fierce opposition against specific principles, such as measuring investments at cost or stock exchange values, or applying the net premium method or an alternative method in determining the life insurance provisions. This evidenced a level of awareness of the importance of accounting policy choices and the impact of such choices on the financial statements of the reporting period and of the future. 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 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 (which did not always include the profit appropriation) did, in most cases, not provide a clear indication of the nature of the reserves and, in particular, whether or not they were, effectively, more necessary or desirable adjustments of assets and/or liabilities. The accounting policies applied for the individual selected elements of financial reporting are presented hereafter.

Regarding the investments, most companies 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. For only two companies, their practice could be determined with certainty: one reported all amounts in the profit and loss account, and the second changed its policy during the period from inclusion 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.

There were also differences in respect of the technical provisions, both in the way reinsurance coverage was presented (as separate items in the balance sheet and the profit and loss account, or set off against the gross amounts) and how the movements were shown in the profit and loss account. Although the financial statements did not always include the accounting policies in respect of the life insurance provisions, the data that were presented, combined with other available information, revealed that 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. Information on the non-life insurance provisions was absent.

The findings in respect of the other selected elements, for which no specific comments could be retrieved in the available literature, are as follows:

- Although staff pension schemes were introduced by several companies, there was no information on the accounting treatment, although there were clear indications that the liabilities were included in the life insurance provisions as if these schemes were concluded with third parties;
- Tax charges and liabilities were 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;
- The limited amount of information in respect of business combinations showed that these concerned, in particular, portfolio transfers, which were, generally, reported as accepted insurance liabilities against the payment of a single premium; and
- Disclosure of solvency information was not applicable, since there were no specific requirements in respect of a required solvency margin at the time.

In summary, my conclusion is that the lack of legislative requirements did not stop the insurers in presenting useful financial statements. Their financial statements increased gradually in size in the period reviewed in this chapter, and more and more details were disclosed. This development was caused by the attempts, over more than 40 years, to establish some form of supervision of life insurance companies. Most companies adapted their financial statements to 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 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 developments: in this period, any financial reporting requirements or 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, and a single-track reporting approach were not even considered.

For all involved in the developments, it seemed self-evident that any future prudential requirements would determine the financial requirements (a type 1 single-track reporting approach).