5 Period 1923-1970 – the introduction of a mandatory single-track reporting approach

5.1 Introduction
This chapter presents the findings, analysis, and summary and conclusions of the second of the five time slots included in this dissertation, to answer the four remaining research questions. As is done in the previous chapter, this chapter describes the actual reporting developments in their context. Therefore, it starts with a description of the general developments impacting the Dutch insurance industry, presenting the developments of the Dutch population and economy, the social security system, the tax system for companies, and the insurance industry itself, and shows that there were significant developments in all these areas: the population and the state of the economy continued to grow, the social security system expanded, company tax focused on profits (not on distributions), and the insurance industry experienced considerable growth, but also, near the end of the period, witnessed an increasing level of mergers and cooperations, in particular between life and non-life insurers.

Subsequently, the focus is on the financial reporting developments. In this part, the description starts with the history, the establishment and the initial activities of the EEC, since – as becomes much clearer in following chapters – this can, in my view, be considered as one of the events which had the most longstanding impact on the Dutch developments through the measures to create, ultimately, a common market with free movements of persons, services, and capital. This included the development of company law directives, such as the first directive, adopted in 1968, including the requirement to make annual financial information not just available to shareholders, but also to the public at large. To put these developments in a further European perspective, the description also presents the establishment and activities of the European insurance industry, combined in the ‘Comité Européen des Assurances’ (henceforth, the ‘CEA’) and of the European auditing profession, brought together in the UEC and the ‘Groupe d’Etudes des Experts Comptables de la C.E.E.’ (henceforth, the ‘Groupe d’Etudes’). This part concludes with a brief introduction of other European and global initiatives with an impact on the financial reporting developments.

This description of the European financial reporting developments is followed by a discussion of what occurred in the UK, where a certain level of divergence between the financial statements and the prudential returns started to become apparent near the end of the period, although it was legally still possible, with certain additional disclosures, to use the same accounting principles in the financial statements and in the prudential returns, without prudential filters (a type 3 single-track reporting approach).\(^1\) In the US, the establishment of the SEC and the initial accounting-standard setting activities triggered a number of changes in financial reporting practices, although the influence on the financial statements of insurers was limited, since they continued to report under the conservative prudential accounting policies. However, related to the development of US GAAP, insurers did move from a type 1 approach (without additional information and no prudential filters) to a type 3 approach (with additional information).

---

\(^1\) For an explanation of the type of approaches, see table 2.1 in section 2.5.
Notwithstanding this change, the comparability between the financial statements of insurers and non-insurers in the US diminished because of the ongoing use of prudential accounting policies by the first group.

Finally, the developments in the Netherlands are described, in particular the adoption of a new commercial code effective in 1929, a completely revised civil code, and the adoption of an act on the annual accounts. But, more importantly, the period also witnessed a number of private initiatives, started by the preparers’ organisations, to improve the Dutch financial reporting practices. For life insurers, the 1929 commercial code, combined with the views expressed by the government and the Insurance Chamber, introduced a mandatory type 1 single-track reporting approach, requiring the prudential returns to be designated and published as the financial statements.

This overview of financial reporting developments is followed by a description of the prudential reporting developments applicable to insurance companies. It starts with an overview of the limited activities at the level of the EEC and Europe, followed by those in the UK and in the US. It ends with an overview of the Dutch developments, in particular the implementation of the 1922 life insurance business act and its related Administrative Decrees, and, in 1964, of a similar act focusing on non-life insurers.

In the penultimate section of the chapter, a description and analysis of the actual reporting practices is presented, linking these practices to the financial and prudential reporting developments. The chapter ends with a summary and overview of conclusions.

The main Dutch developments in the period are presented in the following figure.

**Figure 5.1** Overview of the main Dutch developments in the period 1923-1970
5.2 General developments impacting the Dutch insurance industry

5.2.1 Introduction
This section describes the developments in the Dutch society and economy, the social security system, the tax system for companies, and the insurance industry. It shows that a continuous growth of the population and the level of prosperity triggered a substantial expansion of the Dutch social security system and a search for insurance coverage to protect the increased level of wealth.

Under these conditions, the Dutch life and non-life insurance companies experienced considerable growth, both autonomously and by mergers and cooperation agreements. This occurred despite the fact that the former company tax system, under which only dividends and bonuses distributed by companies were taxed, was replaced by one under which the annual profits were taxed, although insurance companies were allowed to create a tax-exempt equalisation reserve as a buffer for bad economic times.

5.2.2 Developments in the Dutch society and economy
As is partly already described in the previous chapter, during the period 1890-1945 the economy improved again, although with ups and downs. Additionally, important institutional innovations occurred, such as the introduction of general elections, the establishment of trade unions, and the expansion of social security legislation. The growth was also the result of the activities of a large number of companies in the Dutch colonies in the East and West Indies, and was not stopped by the loss of the Dutch East Indies in 1949, when the independent Republic of Indonesia was established. The economic growth occurred until the 1970s, when a short period of stagnation took place. Between 1925 and 1970, the Dutch population increased by 78% from about 7.3 million to almost 13.0 million. At the same time, GNP per capita increased from NLG 784 to NLG 9,480, or by over 1,100%, which represents an average annual growth rate of almost 25%. In real terms, the increase was about 290%, or an average annual rate of almost 6.5%. Combined with increasing life expectations, this created a desire among the population to better secure its improved financial position in respect of private income and capital. This resulted in important changes in the Dutch social security system, as well as in the development of Dutch insurance companies.

5.2.3 Developments in the Dutch social security system
The Dutch social security system of the early 20th century changed fundamentally, in particular when, after the Second World War, a period of improvement and expansion started, in which a limited system focusing on employees evolved into a comprehensive social security system. As a result, the public social security system became the heart of the post-war system, and the other, mostly privately organised, income support schemes gradually diminished or even disappeared.

The following important acts were adopted:

---

2 See section 4.2.2.
5 All data in this section are derived from table A8.1, unless indicated otherwise.
6 The consumer price index, based on 1990=100, was 10 in 1925 and 38 in 1970; the increase in real terms was therefore 1,100/3.8.
The ‘Sickness benefits act’ of 1929, which replaced the 1913 act that was adopted but never made effective.\(^9\) The revisions to the 1913 act were published at the end of June 1929,\(^10\) with the full text shortly after;\(^11\)

The ‘Ziekenfondsbesluiten’, henceforth, the ‘Decrees on health insurance’, adopted by the German occupation government in 1941, introducing compulsory health insurance for Dutch inhabitants with an annual income below a certain amount.\(^12\) The Decrees created licencing, reporting, and supervisory requirements for funds and companies active in this business. Since there are no health insurers in the scope of this dissertation, the Decrees were not relevant for the descriptions presented in this chapter;

The ‘Noodwet ouderdomsvoorziening’ (henceforth, the ‘emergency act old age pensions’), the first national act on old age pensions, adopted in 1947.\(^13\) It focused on the whole Dutch population and entitled a major part of the Dutch population to an old age pension at the age of 65, to be paid by the government;

The ‘Werkloosheidswet’, henceforth, the ‘unemployment act’, adopted in 1949.\(^14\) It provided unemployment benefits for employees who lost their job involuntary;

The ‘Algemene ouderdomswet’, henceforth, the ‘general old age pensions act’, adopted in 1956 and repealing the emergency act of 1947.\(^15\) It introduced old age benefits for all Dutch inhabitants reaching the age of 65;

The ‘Algemene weduwen- en wezenwet’, henceforth, the ‘general widows and orphans act’, adopted in 1959, which introduced a national benefits scheme for all widows with younger children or above the age of 50, and for orphans under the age of 16;\(^16\)

The new ‘Ziekenfondswet’, henceforth, the ‘compulsory health insurance act’, adopted in 1964.\(^17\) The act repealed the Decrees on health insurance of the 1940s and the ‘Wet op de ziekenfondsverzekering voor bejaarden’, henceforth, the ‘act on the health insurance for old aged persons’, adopted in 1956.\(^18\) Basically, the existing system of health insurance was not amended;

The ‘Wet op de arbeidsongeschiktheidverzekering’, henceforth, the ‘disablement insurance act’, adopted in 1966, which introduced a scheme of benefits in case of disablement, to be paid to employees after having received benefits under the sickness benefits act.\(^19\) As a result of the new act, the existing disablement benefits act and the accident act of 1921 were repealed;\(^20\) and

---

\(^9\) See section 4.2.3.  
\(^10\) Minister van Justitie (1929b), Staatsblad 1929, nr. 329.  
\(^11\) Minister van Justitie (1929d), Staatsblad 1929, nr. 374.  
\(^12\) Secretaris-Generaal van Justitie (1941c), Staatsblad 1941, nr. S 804; Secretaris-Generaal van Justitie (1941d), Staatsblad 1941, nr. S 809; and Secretaris-Generaal van Justitie (1941e), Staatsblad 1941, nr. S 812.  
\(^13\) Minister van Justitie (1947), Staatsblad 1947, nr. H 155.  
\(^14\) Minister van Justitie (1949b), Staatsblad 1949, nr. J 423.  
\(^15\) Minister van Justitie (1956a), Staatsblad 1956, nr. 281.  
\(^16\) Minister van Justitie (1959), Staatsblad 1959, nr. 139.  
\(^17\) Minister van Justitie (1964a), Staatsblad 1964, nr. 392.  
\(^18\) Minister van Justitie (1956c), Staatsblad 1956, nr. 634.  
\(^19\) Minister van Justitie (1966a), Staatsblad 1966, nr. 84.  
\(^20\) Minister van Justitie (1967a), Staatsblad 1967, nr. 99.
The ‘Algemene wet bijzondere ziektekosten’, henceforth, the ‘general exceptional medical expenses (compensation) act’ of 1967.\(^1\) It was applicable to all Dutch inhabitants and provided for (additional) medical treatment, nursing and care, including support to maintain or improve disablement and living conditions. The act was executed by the health insurance funds and the authorised health insurance companies.

### 5.2.4 Developments in the Dutch tax system for companies

In 1940, the act on dividend and bonus tax was repealed and replaced by the ‘Besluit op de winstbelasting’, henceforth, the ‘Decree on the profit tax’.\(^2\) It was applicable to a large number of legal entities, including joint stock companies and mutual insurance companies. A profit tax was levied on the taxable profit, calculated according to ‘goed koopmansgebruik’ (henceforth, ‘sound business practice’). The liabilities included the policyholder’s shares in the results of the insurer. The profits from participating interests and shares in affiliated undertakings were fully or almost completely exempted under the so-called ‘deelnemingsvrijstelling’, henceforth, the ‘participation exemption’. Any undistributed profits at the transition date of 1 January 1939 were included in an ‘overgangsreserve’, henceforth, a ‘transition reserve’, and taxed once they were distributed. Finally, under conditions set by the Minister of Finance, a parent company together with its 100% affiliated undertakings could be classified as one company for tax purposes. This was the so-called ‘fiscale eenheid’, henceforth, the ‘fiscal unity’.

The next development occurred in 1941, with the publication of the ‘Besluit op de inkomstenbelasting’, henceforth, the ‘Decree on the income tax’.\(^3\) Although this Decree was not applicable to legal entities, its contents were relevant for such organisations, as future tax legislation referred to this Decree. This concerned, in particular, the provisions regarding the calculation of annual profits, which was determined in an almost similar way as under the decree on the profit tax. Also in 1941, a dividend tax was reintroduced by the ‘Besluit op de dividendbelasting’, henceforth, the ‘Decree on the dividend tax’.\(^4\) However, contrary to the previous dividend and bonus tax, the new tax was an advance levy on the income and profit tax, and not a separate additional tax itself.

In 1942, another step was the publication of the ‘Besluit op de vennootschapsbelasting’, henceforth, the ‘Decree on the company tax’.\(^5\) It repealed, from the year 1941 onwards, the Decree on the profit tax. It maintained the concept of the fiscal unity. As in 1939, any undistributed profits were included in a transition reserve. The Decree referred to the Decree on the income tax, with additional rules on the participation exemption. For insurance companies, the shares of policyholders in the profits were still deducted from the taxable profits, and the technical provisions had to be calculated in accordance with rules to be issued by the Department of Finance. However, the guidance to the Decree noted, without providing the reasons, that the government had no intention to issue such rules, although it did consider regulations regarding the level of the general reserves that, for tax purposes, would be considered as liabilities.\(^6\)

---

\(^1\) Minister van Justitie (1967d), Staatsblad 1967, nr. 617.

\(^2\) Secretaris-Generaal van Justitie (1940), Staatsblad 1940, nr. S 405.

\(^3\) Secretaris-Generaal van Justitie (1941a), Staatsblad 1941, nr. S 414.

\(^4\) Secretaris-Generaal van Justitie (1941b), Staatsblad 1941, nr. S 419.

\(^5\) Secretaris-Generaal van Justitie (1942), Staatsblad 1942, nr. S 402.

\(^6\) Secretaris-Generaal van Financiën (1942).
In 1944, applicable retroactively to 1942, the Dutch government in exile issued a resolution expanding the Decree on the income tax, which included specific tax rules for insurance companies.\(^\text{27}\) Insurers were allowed to set aside a part of their annual profits in a tax-exempt equalisation reserve. On the other hand, any losses had to be charged to this reserve. The annual additions to the reserve were subject to limitations, which were linked to a percentage of the life insurance provision for life insurers, and of the annual premiums for non-life insurers. The maximum level of the equalisation reserve was limited as well. At liquidation, the reserve had to be released and included in the taxable profit. The resolution was reconfirmed in 1945.\(^\text{28}\)

After the issuance of these Decrees, the structure of the Dutch tax system on income tax and company tax remained fundamentally unchanged for several decades, although the rates were adjusted frequently. However, in the 1960s the Decrees were repealed and replaced by new legislation. The change occurred in 1964 with the introduction of a new act on the income tax.\(^\text{29}\) It became effective as of 1 January 1965.\(^\text{30}\) In 1969, this was followed by the ‘Wet op de vennootschapsbelasting’, henceforth, the ‘act on the corporate tax’, which was effective as of 1 January 1970.\(^\text{31}\) As was the case under the Decree on the company tax, the act referred to the act on the income tax, with similar exceptions and specific rules, and the introduction of the possibility to issue specific Administrative Decrees to determine the acceptable reserves for insurance companies.

This possibility triggered a fierce debate between the insurance industry and the government in the 1960s, in particular since the latter intended to abolish the equalisation reserve introduced in 1944.\(^\text{32}\) During this debate, however, work was ongoing behind the scenes to reach a compromise, and the Minister of Finance announced in February 1969 that a deal between the government and the insurance industry was concluded.\(^\text{33}\) Under this deal, interest rate rebates, which so far were charged to the profits in the year a new insurance contract was concluded, were capitalised and amortised in a period of eight years in accordance with a predetermined schedule. The agreement was laid down in a covenant, entitled ‘Afspraak fiscale behandeling premiereserve en egalisatiereserve, een en ander voor zover betrekking hebbend op het binnenlands bedrijf’ (‘Agreement concerning the fiscal treatment of the life insurance provision and the equalisation reserve in respect of the domestic business’), dated 11 April 1969.\(^\text{34}\)

The agreement resulted in the ‘Besluit reserves verzekeraars’, henceforth, the ‘Decree on insurers’ reserves’, established and published in 1972.\(^\text{35}\) The explanatory memorandum to the Decree clarified that, in substance, the system was not changed, but the maximum amounts for the equalisation reserve and its annual additions were decreased. The Decree was effective retrospectively to 1970, the year of the introduction of the new act on the corporate tax.

---

\(^\text{27}\) Secretaris-Generaal van Financiën (1944), Staatscourant 1944, nr. 190.
\(^\text{28}\) Minister van Financiën (1945), Staatscourant 1945, nr. 101.
\(^\text{29}\) Minister van Justitie (1964c), Staatsblad 1964, nr. 512.
\(^\text{30}\) Minister van Justitie (1964d), Staatsblad 1964, nr. 522.
\(^\text{32}\) van Leeuwe (1961), van Rooijen (1963), Zeelenberg (1963), Reflector (1968), Verzekeringsblad (1968), and VVP (1968).
\(^\text{33}\) Verzekeringbode (1969).
\(^\text{34}\) Hoogendoorn (1988).
\(^\text{35}\) Minister van Justitie (1972b), Staatsblad 1972, nr. 414.
For a proper understanding of the consequences of (changes in) the Dutch tax system for companies, the reader should know that, unlike in a number of other continental European countries, the legislation on income tax did not govern financial reporting in the Netherlands.\footnote{van der Zanden (1991).} Although the term ‘sound business practice’ was used both in the tax legislation and, until about 1966, the professional regulations of the Dutch auditing profession, the Supreme Court had ruled in 1957 that, for tax purposes, business-economic principles were only acceptable if they were not in conflict with the text, the structure, and the principles of tax legislation. As the financial reporting practices of, in particular, the larger Dutch companies focused more and more on providing information to all stakeholders, it moved away from using the tax requirements as the basis for determining the annual results, weakening the historical link between the annual accounts and the tax returns.

5.2.5 Development of the Dutch insurance industry

Regarding the developments of the Dutch insurance industry, a clear distinction should be made between life insurers (including funeral funds) and non-life insurers.

Life insurance companies

The statistics in the annexes show that, between 1923 and 1970, the total number of domestic life insurance companies gradually decreased from 67 to 57.\footnote{See table A8.12. According to Wiebes Leemans (1932b), only 11 out of the 30 companies active in the Dutch life insurance market at the end of 1882, still existed at 1 January 1932. Furthermore, 111 out of a total of 157 companies established after 1 January 1883 had disappeared.} However, the largest changes concerned tontine companies, the number of which decreased from 35 to 7, and in respect of funeral funds. Regarding these funds, the number first increased from 46 in 1923 to 125 in 1930, and then rapidly declined in subsequent years: in 1970, only 7 remained. The main changes in these two categories occurred between 1923 and 1940. The main reasons for these developments were the diminishing interest of the public in these products and the small size of the players, making it impossible to compete with the life insurers.

Linked to the increasing welfare in the Netherlands, the life insurance industry experienced considerable growth. Total assets moved from about NLG 0.5 billion in 1923 to almost NLG 23 billion in 1970, with equity growing from NLG 47 million (before deducting an amount of NLG 20 million unpaid capital) to NLG 1,576 million (with an amount of NLG 9 million unpaid).\footnote{See tables A8.22, A8.23, A8.27 and A8.28.} Regarding the profit and loss account, net premium income increased from NLG 80 million in 1923 to NLG 2,400 million in 1970, with net profits moving from NLG 8 million to NLG 264 million.\footnote{See tables A8.24, A8.25 and A8.30.}

The statistics also show a gradual increase of all investment categories in the period 1923-1970, with specific growth in private loans and other investments.\footnote{See tables A8.22 and A8.27.} The increase in private loans from 1940 to 1945 concerned, in particular, loans to the government, both as a result of the lack of other investment opportunities and under pressure by the government.\footnote{van Gerwen and Verbeek (1995), p. 156.} At the end of 1946, such investments accounted for 73% of the total. Subsequently this percentage decreased in favour of loans guaranteed by mortgages and of private loans to companies and semi-government institutions.
Further support to the government by the life insurers was provided in the 1950s, when they agreed to provide loans to the ‘Bank voor Nederlandsche Gemeenten’ (the ‘Dutch Municipal Bank’, henceforth, the ‘BNG’), to finance local municipal housing development projects. This resulted, in 1951, in large transfers between other investments and private loans, as treasury bills were swapped for these financing arrangements with the BNG. The spectacular increase of other investments concerned mainly participating interests in other companies. In 1965, a reclassification was implemented and participating interests were transferred to other investments: at the end of the year, more than half of this balance sheet line included participating interests in banks, insurance companies, and investment funds, with the remainder being loans to the government.

Next to the general increase in welfare, there were also other developments in the Dutch society that contributed to the growth of the life insurance industry. At the end of the 1920s, life insurers stimulated their own growth through the introduction of acquisition commissions paid in full to the intermediaries at the moment of sale of the new contract: earlier, such commissions were paid during the term of the contract as part of the collection fees. Furthermore, from 1941 onwards life insurance premiums were, up to a certain maximum, deductible for income tax purposes, whereas claims were subject to this tax. The expanding introduction of new social security legislation triggered additional demands for insurance coverage for those individuals who were not under the scope of such legislation, such as non-employees or employees with salaries above the maximum amounts of the social security acts. Finally, an important contribution to the growth came from the establishment by employers of group pension schemes (supported by favourable tax legislation for such schemes). Such schemes were regulated by the ‘Wet verplichte deelneming in een bedrijfspensioenfonds’, henceforth, the ‘act on mandatory participation in an industry pension fund’, adopted in 1949. However, since such pension funds often insured their liabilities with life insurance companies, this act did not prevent the share of group life insurance business, measured as a percentage of insured capital, to grow from 29% in 1951 to almost 40% in 1961.

Another development impacting the Dutch life insurance market was described by Jac. de Roy. He noted that the level of competition after the Second World War caused joint stock companies to introduce more policyholder profit participation schemes. This occurred in different forms. According to the lawyer J.W.H. van Oostveen, profit sharing contracts did not really exist in the Netherlands before the war.

Non-life insurance companies
For non-life insurance business, systematic data became only available after the introduction of the non-life insurance business act in the mid-1960s, described later in this chapter when discussing the Dutch prudentia reporting developments.

---

43 Verzekeringkamer (A1951).
44 Verzekeringkamer (A1956).
45 Verzekeringkamer (L1965).
46 van Haaf ten (1930).
47 Eerste Nederlandsche (1957).
52 van Oostveen (1949), p. 117-118.
However, history did show that a large number of domestic and foreign non-life insurance companies were active in the Dutch market before. In particular, marine and fire insurance business was popular, with also a gradual increase of the number of companies covering the protection of goods (such as burglary, car and motor, storm, and glass insurance). Furthermore, there was a steady growth of the number of insurers providing coverage for accident and health, and for medical expenses. The growth of non-life insurance business can be partly explained by the cooperation and merger agreements between life and non-life insurers, concluded after the Second World War. This opened additional distribution channels for both groups, and non-life insurers were able to capitalise on the expansion of the life insurers. Although life insurers, from 1947 onwards, could only participate for a maximum of 25% in the capital of non-life insurers, distribution agreements on fire insurance business already existed for quite some time. And in the 1950s and 1960s the first ‘composite’ insurance groups were established. Next to these combinations of life and non-life insurers, the statistics also show an increasing cooperation of insurers and health insurance funds: the market share of the latter groups in accident and health insurance business increased from 8% in 1950 to almost 40% in 1970.

As a result, the premium income for non-life insurance business increased from NLG 352 million in 1952 to NLG 769 million in 1962, and the proportion of non-life insurance premiums in the total premium income moved from 34% in 1955 to 47% in the mid-1960s.

The cooperation between life and non-life insurers resulted in a process of concentration in both segments of the market: in the beginning of the 1960s, about 20 large groups comprised more than 100 companies. The merger activities continued in the 1960s, in particular in 1963 with the mergers between the Utrecht, the Holland van 1859, and the HAV Bank on the one hand, and between the Nationale and the Nederlanden van 1845 on the other hand, both described in chapter 3.

5.2.6 Summary and conclusions
The description in this section shows that the period 1923-1970 was one of major change in all areas:

- The population increased by almost 80%, from about 7.3 to almost 13.0 million inhabitants. But the growth was not just in the number of people, in particular the level of prosperity increased spectacularly: GNP per capita increased from about NLG 784 to NLG 9,480, an average annual growth rate of almost 25%, although in real terms the growth was much more modest at an average annual rate of about 6.5%. Combined with an ongoing increase of life expectations, this resulted in a growing desire to protect this level of welfare, which triggered a number of other developments, discussed hereafter;

- The period also witnessed a strong expansion of the Dutch social security system. Until the mid-1950s, the new social security acts mainly focused on the employees, but subsequently several general acts were introduced, including a large part of the population in its scope;

---

53 See table A8.16.
54 Fortis ASR (2005), p. 18.
56 See table A8.19.
58 Steinlin and Mächler (1964).
59 See sections 3.3.2 and 3.4.4, respectively.
Fundamental changes also occurred in respect of the tax system applicable to companies. In the early 1940s, the existing system of a tax on dividends and bonuses was replaced by tax charges on the annual profits of companies, calculated in accordance with the fiscal rules of sound business practice, and with special rules to prevent double taxation on the profits of participating interests. Furthermore, separate provisions were introduced for insurance companies, enabling them to set aside a part of their taxable profits in a tax-exempt equalisation reserve, which should, however, be used to absorb taxable losses before any other form of tax compensation was applicable. This system stayed in place until the end of the 1960s, when the system of the fiscal equalisation reserve was maintained in a more limited form, combined with stricter regulations to determine the amount of taxable profits of insurance companies through a Decree on the insurers’ reserves, specifying the fiscal treatment of the life insurance provision and the equalisation reserve;

In the period reviewed in this chapter, the Dutch life insurance industry experienced an explosive growth, in total assets, total premium income, equity, and profits. This growth was mainly related to the growing population and prosperity. It was further fuelled by acquisition incentives for agents and government measures in respect of tax incentives for life insurance business and of the group pension business. Finally, the introduction of policyholders’ profit sharing schemes contributed to the growth; and

The developments in the Dutch society and economy resulted in an increase of the non-life insurance business as well, both on an autonomous basis and through cooperation agreements and mergers with life insurance companies and health insurance funds. This occurred, in particular, in the 1960s, when the first large-scale combinations of composite insurance groups were observed, for instance within the AMEV and by the merger between the Nationale (the largest life insurer) and the Nederlanden van 1845 (a top non-life insurer).

5.3 Financial reporting developments

5.3.1 Financial reporting developments at the European and global levels

5.3.1.1 Introduction
This section presents a description of the financial reporting developments at the European and global levels, excluding those in the UK and the US: these are discussed in the next two sections.

As is shown in the following chapters, the development with the highest long-term impact was the establishment of the EEC in 1957. For this reason, it is described first, placing this event in its historical context. Next, the section presents the contents of the ‘Treaties of Rome’ and the subsequent treaties, aiming at the creation a common market by the gradual abolition of barriers between the member states in respect of the free movement of persons, services, and capital. It ends with a description of the first European company law directive.
This first directive, that had to be implemented in all member states, introduced the mandatory annual publication of a balance sheet and a profit and loss account. In other words, making these documents available to the shareholders only was no longer sufficient; financial information had to be made available to the public at large. A full overview of the treaties and other final legal documents is included in annex 11.\(^{60}\)

Subsequently, this section describes other European developments impacting the financial reporting environment, such as the establishment of the European organisations of insurers and auditors and their involvement in the development of the European directives. This is followed by an introduction of the developments on a global level, presenting the establishment of three international groups active in the areas of financial and/or prudential reporting requirements. The section ends with a summary and an overview of conclusions.

5.3.1.2 The European Economic Community

5.3.1.2.1 The preceding developments

The first initiative to create a form of a united Europe started shortly after the Second World War.\(^{61}\) In a speech on 19 September 1946 at the University of Zurich (Switzerland), Winston Churchill (then the prime minister of the UK) called for a “kind of United States of Europe”.\(^{62}\) This resulted, in May 1947, in the set-up of the ‘United Europe Movement’. Similar initiatives occurred in France, leading, in the same year, to the establishment of the ‘International Coordination of Movements for the Unification of Europe Committee’.

Another initiative was the incorporation, in May 1949, of the ‘Council of Europe’, which aim was to focus on major issues facing the European society other than defence, for the purpose of safeguarding and realising the ideals and principles that are common heritage, and facilitating economic and social progress.\(^{63}\) In respect of international trade, the establishment of the ‘Benelux economic union’ in 1950, comprising Belgium, Luxembourg and the Netherlands, was an important step, since it focused on the free movements of persons, goods, services and capital and on the equal treatment of each of these categories in the member states.\(^{64}\) And on a wider scale, the incorporation, in 1948, of the ‘Organisation for European Economic Co-operation’ (henceforth, the ‘OEEC’) was a development with considerable impact.\(^{65}\) Initially, it was established to prepare the ‘European Recovery Plan’ which justified the US help provided through the ‘Marshall plan’ for the reconstruction of Europe after the Second World War. Subsequently, as in the Benelux, it focused on the removal of barriers of trade. When six members took the initiative to create the EEC, described hereafter, the other members created the ‘European Free Trade Association’ (henceforth, the ‘EFTA’) in response.

\(^{60}\) This overview includes the directives in respect of financial and prudential reporting requirements for insurance companies. Since two of the three groups reviewed in this dissertation (Fortis and ING) were, since the early 1990s, financial conglomerates including insurance and banking activities, the directives for credit institutions are included as well.

\(^{61}\) European Commission (2010).

\(^{62}\) The speech can be found on www.ena.lu. However, he already mentioned a ‘Council of Europe’ on 21 March 1943 in a broadcast to the nation (to be found on www.coe.int).

\(^{63}\) Council of Europe (1949).

\(^{64}\) Winter and Baas (2006).

\(^{65}\) OEEC (2010).
In September 1961, the OEEC was superseded by the global ‘Organisation for Economic Cooperation and Development’ (henceforth, the ‘OECD’). Concerning the EFTA, the history showed that several members joined and subsequently left the organisation, when they became a member of the enlarging EEC. At the end of 2005, it had four remaining members: Iceland, Liechtenstein, Norway and Switzerland, and had concluded several cooperation agreements with the EEC, creating the so-called ‘European Economic Area’ (henceforth, the ‘EEA’), which, however, did not include Switzerland after the rejection of the EEA treaty by the Swiss population in a referendum in 1992.

However, the most important steps occurred in the 1950s. First, in 1951 the ‘European Coal and Steel Community’ (henceforth, the ‘ECSC’) was established. It resulted from an initiative taken by the French Minister of Foreign Affairs Robert Schuman in May 1950, which was subsequently supported by the governments of Belgium, France, Germany, Italy, Luxembourg, and the Netherlands (henceforth, the ‘Six’) and by the Council of Europe. As a result, on 10 February 1953, a common market for coal and iron ore was set into place. In 1955, this was followed by the start of the creation of the EEC, which occurred in June 1955 during a meeting in Messina (Italy), where the foreign ministers of the Six agreed to aim at the integration of their countries on the economic front. A report on the draft ‘Community Treaties’ foreseeing the creation of the EEC and the ‘European Atomic Energy Community’ (henceforth, the ‘Euratom’) was presented in May 1956 by Paul-Henri Spaak, the Belgian Minister for Foreign Affairs. Shortly afterwards, the Spaak report was approved and negotiations were opened.

5.3.1.2.2 The establishment of the EEC, its programs and its initial development

The treaties establishing the EEC and Euratom were signed in Rome (Italy) by the Six on 25 March 1957. As of that day, they were referred to as the ‘Treaties of Rome’. They came into force on 1 January 1958.

The institutions of the ‘European Communities’ and its connections are shown hereafter.

---

66 EFTA (2009).
68 For the full text of the EEC treaty, see European Commission (1957).
The most important institutions in this figure were:

- The ‘Council of Ministers’, responsible for the coordination of the general economic policies of the member states and with decision powers. It consisted of one representative for each member state. Unless the treaty ruled otherwise, voting would be by simple majority. In case of decisions requiring a qualified majority, each member state received a predetermined number of votes. Approval of proposals of the ‘European Commission’ (described hereafter) would occur by a simple or, in some cases, qualified majority, but they could only be rejected by unanimous voting;

- The ‘Assembly’, which consisted of 140 representatives of the people of the member states. It would meet once a year or more at the request of a majority of its members, the Council of Ministers or the European Commission. The European Commission would answer any questions and the Council of Ministers could be heard. Voting was by simple majority. The Assembly could dismiss the European Commission with a majority of two-third votes;

---

69 It should be noted that the institutions, for reasons of clarity, are grouped in accordance with the Community they belong to. This should not lead to conclusions about hierarchical relations, e.g., that they only served the respective Commissions. In many cases, they also provided direct advice to the Council of Ministers.
• The ‘Court of Justice’, which had to ensure justice in respect of the explanation and application of the treaty;
• The European Commission, with nine members, monitoring the application of the treaty clauses and issuing recommendations or advices on the topics dealt with in the treaty; and
• The ‘Economic and Social Committee’, consisting of 101 members, appointed on a personal basis, from all sectors of economic and social life, to support the Council and the European Commission.

The activities of the EEC focused, among others, on the gradual abolition of all customs duties and other trade barriers, to establish a common market, which would be gradually created during a transitional period of 12 years. This period was divided in three stages of each four years, the length of which could be changed under specified conditions. However, these conditions could not result in the transitional period be longer than 15 years from the year of inception of the treaty. For this dissertation, the important part of the treaty concerned the removal between the member states of barriers to the free movements of persons, services and capital. It entailed the right of free establishment in another member state, the freedom to provide services in another member state, and the unlimited flow of capital between the member states. As is described in a later chapter, these objectives provided the cornerstones of the regulations regarding the insurance industry.70

The treaty stipulated that, before the end of the first stage, a general program for the abolition of existing barriers to the freedom of establishment should be developed. It included a similar requirement for the freedom to provide services. These programs were published early 1962.71 The head of the ‘Insurance Bureau’ of the Dutch Ministry of Finance, J. van Beek, described that the essence of both programs was to eliminate the differences in local regulations applicable to its own nationals (persons and companies or branches) and those of other member states.72 In other words, to harmonise company law.

Regarding the insurance business, the first step would focus on reinsurance activities, where the differences should disappear before the end of the sixth year after the inception of the treaty (i.e. before the end of 1964). Non-life insurance business would follow and life insurance activities would be last.73

After its establishment in 1957, a number of developments occurred in the EEC. New members joined and steps were taken to establish a common currency.74 Furthermore, progress was made in achieving the objectives of the Community and the EEC treaty was amended several times. On 8 April 1965, a treaty merging the executives of the three Communities (the ECSC, the EEC and the EURATOM) was signed in Brussels, creating one Council and one European Commission.75

70 See section 6.6 regarding the development of the prudential directives, and section 6.4.2 regarding the development of the accounting directives.
71 European Commission (1961a) and European Commission (1961b).
72 van Beek (1962).
73 Basijn (1968) provided specific details on the time schedule: freedom of establishment before the end of 1965 or 1967, for non-life and life insurance respectively, and freedom of services at the latest two years after these dates. As is shown in the descriptions presenting the development of the prudential directives, these time schedules were not met at all, partly because of political crises within the Community, but also as a consequence of the complexity of the issues.
74 These developments are described in the next chapter: see section 6.3.2.1.
75 European Commission (1967b) and European Commission (1967a).
And on 1 January 1966, the EEC entered the third and last stage of the transition to the common market.\footnote{European Commission (2010).} This implied the replacement of the unanimity vote by the majority system for most of the decisions of the Council of Ministers. However, at the end of that month it was decided to retain the unanimity vote when major interests were at stake, as a compromise to resolve fundamental differences of opinion between France and the other members on the common agricultural policy. Finally, the customs union fully entered into force on 1 July 1968. The remaining customs duties on intra-community trade were abolished about 18 months ahead of what was scheduled in the treaty and a common customs tariff was introduced to replace the national customs duties on trade with the rest of the world.

However, this was not the end of the developments. During a summit meeting held in The Hague (the Netherlands) in December 1969, the member states confirmed their willingness to gradually develop a genuine economic and monetary union and reaffirmed their agreement on the principle of the enlargement of the Community. The follow-up of these intentions is discussed in the next chapter.\footnote{See section 6.3.2.1.}

### 5.3.1.2.3 The activities of the European Commission

It was part of the tasks of the European Commission to issue recommendations or advice on the topics discussed in the treaty, which led to several programs in the area of harmonisation of company law. In respect of financial reporting requirements, this resulted, in 1968, in the issuance of the Council directive 68/151/EEC, also called the ‘first directive’.\footnote{European Commission (1968).} In addition to the objectives stated in the treaty, the program on these requirements also focused on facilitating trade in the Community and cross-border transactions, and supporting the creation of a European capital market.\footnote{Van Hulle and van der Tas (1995).}

For the Netherlands, the first directive was mainly aimed at joint stock companies. The member states were required to take measures to ensure compulsory disclosure by these companies of a number of documents and particulars, including a balance sheet and a profit and loss account for each financial year. However, in respect of the ‘besloten naamloze vennootschap’ (henceforth, the ‘private joint stock company’) under Dutch law, the application of this provision would be postponed until the date of implementation of a directive concerning the coordination of the contents of the balance sheets and the profit and loss accounts. Furthermore, those companies whose balance sheet total was less than what was specified in the directive would be exempted from the requirement to publish these documents. The Council of Ministers would adopt such a directive within two years following the adoption of the first directive.\footnote{As is described in section 6.4.2.2, this time schedule proved to be highly optimistic: the directive dealing with the annual accounts was issued only in 1978.} Under the directive, the major characteristics of a private joint stock company were that it could not issue bearer shares, list their shares on a stock exchange, and had to give prior approval to the transfer of shares to third parties.

In each member state, a file should be opened in a publicly accessible register. All company documents and particulars to be disclosed should be entered into this register. The directive should be implemented in the national laws before the end of September 1969.
However, the obligation to disclose the balance sheet and the profit and loss account should not enter into force until September 1970. As is discussed later in this chapter, this first directive had a large impact on the Dutch financial reporting legislation, in particular in respect of the publication requirements.

5.3.1.3 Other European developments
Next to these European governmental developments, leading to the establishment of the EEC in 1957, also private initiatives occurred in the 1950s to enhance cooperation between national organisations. Relevant for this dissertation are, in particular, the establishment of the CEA in 1950, and the UEC and the Groupe d’Etudes in 1951 and 1961, respectively.

5.3.1.3.1 The establishment and activities of the Comité Européen des Assurances
As is described in several chapters of this dissertation, the European insurance industry was actively involved in the European and global discussions on the financial and prudential reporting developments. The European representative of the insurance industry was the CEA.

The activities related for a major part to the financial and prudential reporting developments initiated by the OEEC, the European Commission, the ‘European Financial Reporting Advisory Group’ (henceforth, the ‘EFRAG’), the IAIS and the IASC/IASB, all described later in this dissertation. The views of the CEA are presented in the descriptions of these developments.

The organisation was founded in March 1953 in Rome at a meeting of 17 European national insurance organisations and had members or observers from almost all Western European countries. The initial members included the Dutch Society for the Promotion of Life insurance business and its non-life counterpart the ‘Nederlandse Unie van Schadeverzekeraars’ (henceforth, the ‘Dutch Union of Non-life insurers’). In its first years, the CEA served as an advisor for the OEEC, as a member of its working party on insurance and reinsurance liberalisation.

Within the insurance industry itself, the activities focused on common areas, such as insurance supervision in different countries, double taxation of insurance activities, and issues arising out of the EEC initiatives on motor car and fire insurance business. However, the CEA also wanted to participate in the discussion in the EEC working group responsible for the development of insurance directives, as part of the development of the programs to establish freedom of establishment and the provision of services. After long discussions, it was, in May 1959, allowed to participate in this group, which, until then, only consisted of insurance supervisors and European Commission staff. It appeared that the working party had already drafted a program, based on the abolition of the local supervision of branches of insurance companies with its head office in another member state: only the home country supervisors would play this role. This would, however, require the harmonisation of existing national legislation, with the risk that the supervisory requirements in a specific country would be increased. According to the CEA, this could mean that requirements would be introduced which did not exist before, which was against the spirit of the EEC treaty. After a fierce discussion, the working group accepted the principle that no country could be obliged to implement supervisory measures it would not have had without the EEC treaty.

\^81\^ Heyning (1960).

\^82\^ Although it might have been difficult or even impossible to operationalise this principle, since it required a continuous assessment of ‘what-if’ scenarios, this decision was the political compromise to enable the working group to make (some) progress.

206
As is described in subsequent chapters, it would take another 33 years before this principle of 'home country control' was implemented in the European directives.\textsuperscript{83}

5.3.1.3.2 The establishment and activities of the Union Européenne des Experts Comptables Economique et Financiers and the Groupe d'Etudes des Experts Comptables de la C.E.E.

The UEC was the first European organisation of auditors.\textsuperscript{84} It was founded on 16 November 1951 in Paris (France) by the auditing bodies in ten European countries.\textsuperscript{85} In 1963, the leading auditing bodies of a number of other countries joined, including the NIVA and the VAGA, which both had originally been completely against the UEC structure.

The establishment of the EEC provided a new stimulus to the young European organisation. To respond to this development, the UEC formed in 1958 a working party chaired by the leading Belgian auditor Léon Saxe, in order to ensure that the auditing profession could make its voice heard in, and contribute to, the process of the company law harmonisation. Because not all of the countries represented in the UEC were EEC member states, the ‘Commission Saxe’ was changed into an independent body in 1961, known as the ‘Groupe d’Etudes’. Supported by the major auditing bodies in the EEC member states, it became a recognised advisory body of the EEC on accounting and auditing matters.\textsuperscript{86} The result of these developments was that there were effectively two European auditing organisations, the Group d’Etudes for the EEC member states, and the UEC also involving other countries. This was a clear contrast to the CEA, which was one organisation in which insurance organisations of member and non-member states were able to work together.

The greatest obstacle to the development of the UEC was that it represented a wide diversity of views.\textsuperscript{87} Especially after the British, Dutch and Scandinavian institutes joined the UEC in 1963, the fundamental differences between the continental and Anglo-American approaches made it virtually impossible for the UEC to arrive at a common position on the harmonisation or the uniformity of accounting principles. The divide in Europe became particularly evident when successive drafts of the fourth accounting directive appeared: the ‘Elmendorff committee’ “did not consider it to be its task to put forward new, possibly better rules for the publication of accounts”.\textsuperscript{88}

As it merely sought the harmonisation of existing practices, its proposals and the corresponding 1971 draft accounts directive mainly reflected the law-based approach to accounting adopted in Germany and France. When it became clear that Denmark, Ireland, and the UK were to join the EEC, which they did in 1973, strong objections to the proposed fourth directive were raised in particular by the UK profession. The development of this directive is discussed in the next chapter.\textsuperscript{89}

\textsuperscript{83} See section 7.6.4.

\textsuperscript{84} Bechinie (1981).

\textsuperscript{85} Camfferman and Zeff (2009).

\textsuperscript{86} de Hen et al. (1995), p. 39.

\textsuperscript{87} Camfferman and Zeff (2007), p. 39-40.

\textsuperscript{88} This committee was actively involved in the preparation of the European accounting directives. Its activities and pronouncements are described in section 6.4.2.

\textsuperscript{89} See section 6.4.2.2.
During this process of developing a draft directive, it became more and more clear that the existence of two organisations within a single region, representing the same professional bodies, created endless possibilities for the duplication of work and for variations of opinion.  

The solution was creating a new single body: the ‘Fédération des Experts Comptables Européens’ (henceforth, the ‘FEE’), described in the next chapter.

5.3.1.4 Global developments

During the period discussed in this chapter, also several international organisations active in the field of accounting standard setting on a global level were created. They were the ‘United Nations’ (henceforth, the ‘UN’), the OECD, and the ‘Accountants International Study Group’, henceforth, the ‘AISG’. All of these have played a role, although – generally – not directly, in the development of international accounting standards, issued by the IASC, as is discussed in the next chapter.

The UN came into existence on 24 October 1945. It was the successor of the ‘League of Nations’, established after the First World War to promote international cooperation and to achieve peace and security. This was also the purpose of the UN, and one of its activities focused on the development of financial reporting requirements for multinational entities. The European Commission was a participant in this process.

The OECD was created on 14 December 1960. It succeeded the OEEC, described earlier when presenting the developments leading to the creation of the EEC, and focused on the promotion of policies to achieve sustainable economic growth of world trade. The OECD issued several relevant reports in the area of financial and prudential reporting developments. The European Commission participated in the deliberations on these reports.

These activities of the OECD are discussed in the next chapter, but it is already noteworthy that one of the earliest initiatives in respect of insurance supervision focused on the establishment of a minimum solvency margin for non-life insurance companies. As is described later when presenting the prudential reporting developments, the development of solvency requirements for all types of insurers was an area receiving increasing attention on the European and Dutch levels.

The AISG was the first private group undertaking global initiatives to develop international accounting standards, reacting on demands for the international uniformity of accounting standards. One of the earliest calls in this area came from J. Kraayenhof, when he chaired the seventh international congress of accountants in 1957, held in Amsterdam. He was one of the most influential Dutch auditors at the time. Kraayenhof repeated his call two years later, asking attention for the increasing international flows of capital and the need for comparable net equities and results.

---

90 Swindon (1986b).
91 See section 6.3.2.2.
92 See section 6.3.3.
93 UN (2010).
94 Minister van Buitenlandse Zaken (1961), Tractatenblad 1961, nr. 60.
96 See section 6.3.3 and 6.6.4.
98 Kraayenhof (1960).
Kraayenhof’s view was presented again in 1962 by his associate I. Kleerekoper, another Dutch auditor. A response to these requests was the creation, in 1966, of the ‘International Study Group’, shortly afterwards called the AISG. It included representatives from the auditing bodies in Canada, England and Wales, Ireland, Scotland, and the US. The group was disbanded in 1977, after having issued 20 publications. This was linked to the formation of the IASC in 1973, discussed in the next chapter, and to the creation of the ‘International Federation of Accountants’ (the ‘IFAC’) in October 1977. The publications covered a large number of topics and served, in several cases, as input to the IASC, and are described in subsequent chapters.

5.3.1.5 Summary and conclusions
As is made more evident in the following chapters, the most important event with a long-term impact on the Dutch financial reporting developments was the establishment of the EEC in 1957. Its activities focused on the creation of a common market. To achieve this objective, it was important to remove the barriers between the member states in respect of the free movement of persons, services and capital. This entailed the right of free establishment in another member state, and the freedom to provide services in another member state. As is described in the following chapters, these two components of the treaties formed the cornerstone for a large number of regulations concerning the business community in the EEC, including the insurance industry. They were implemented through directives, prepared and issued by the European Commission, and approved by the Council of Ministers and the European Parliament. In the period reviewed in this chapter, the European Commission issued one directive in the area of financial reporting, focusing in the requirement for joint stock companies to prepare and publish an annual balance sheet and a profit and loss account, i.e. making such financial information available not just to shareholders, but also to the public at large. The implications of this directive for the Dutch financial reporting requirements are described later in this chapter.

However, the establishment of the EEC was not the only development in respect of financial reporting requirements. Other initiatives were the creation of the CEA, bringing together a large number of national organisations of insurance companies, and the incorporation of two European organisations of auditors, the UEC and the Groupe d’Etudes. As is described later in this and the following chapters, these groups delivered important contributions to the European financial and prudential reporting developments.

But also on the global level several activities occurred impacting the financial and/or prudential reporting requirements, although mostly only in an indirect way. This concerned the establishment of the UN, the OECD, and the AISG, which all issued reports that influenced the development of such requirements, as is described in the next chapter.

101 See section 6.3.3.
102 Cummings and Chetkovich (1978).
5.3.2 Financial reporting developments in the UK

5.3.2.1 Introduction
The description in this section focuses on the further expansion of the provisions in subsequent companies acts, starting, in 1928, with the amendments to the 1907 companies act. Around the same time, some leading auditing or accounting professionals, in particular Garnsey and De Paula, initiated further discussions on and provided practical examples of consolidated accounts. This resulted in the start of accounting standard setting activities by the ICAEW in the early 1940s.

These combined developments led, in 1947, to a revised companies act, requiring, for the first time, the preparation of group accounts, which would normally be in the form of consolidated accounts. The act discontinued the legal situation that insurance companies were allowed to designate their prudential returns as their official financial statements, a possibility that was widely used in practice. This act also introduced the concept of a “true and fair view” (replacing the 1844 concept of a “full and fair balance sheet”), which would play a dominant role in the UK financial reporting environment from that moment onwards. Since the act did not prohibit the use of secret and undisclosed reserves, the insurers were, however, still allowed to apply the accounting principles used in the prudential returns in their financial statements. Prudential filters were not discussed. Therefore, in effect, they applied a type 3 single-track reporting approach. The final amendments in legislation were introduced in the ‘Companies act 1967’. However, a number of provisions in this act were not (yet) applicable to insurance companies. As a result, these companies continued to report primarily using the accounting principles derived from the supervisory requirements.

5.3.2.2 The companies acts of 1928 and 1929
The 1928 companies act resulted from the work of the ‘Greene committee’, appointed in 1926. Its recommendations were incorporated in the ‘Companies act 1928’, which was one year later merged with the existing companies acts into the ‘Companies act 1929’. The act included models for the balance sheet, but, as was the case under the 1908 companies act, these were not applicable to insurance companies that applied the provisions of the 1909 assurance companies act. However, all other provisions were applicable.

This meant, among others, that the annual accounts should include a balance sheet, a profit and loss account, and a directors’ report. The act also included requirements to disclose how the profits and losses of subsidiaries had been dealt with in the accounts of the parent company, although it was not necessary to specify the amounts. Furthermore, the act provided a definition of a subsidiary, which was linked to the ownership of capital or the voting power of the investor. On the other hand, requirements in respect of accounting principles or prudential filters were (still) absent, enabling (but not requiring) insurance companies (because of the required additional disclosures) to adopt a type 3 single-track reporting approach and move away from their earlier type 1 approach.

---

103 Nigam (1955).
104 Topham and Palmer (1929).
105 See section 4.3.1.3.
106 For a description of this act, see section 4.4.1.3.
107 See section 4.3.1.3.
According to Napier, the 1928 act included few innovations. Edwards noted that, at least, the requirement to file the shareholders’ balance sheet with the Registrar (i.e. to make it available for inspection by any interested parties including investors and creditors) ruled out the possibility to omit profit figures from such a balance sheet, as had been done under the 1908 companies act. But, in his view, the act did not abandon the use of secret reserves: it contained implicit approval by requiring the directors only to report the amount they propose to carry to the reserves shown specifically on the balance sheet. It also did not require holding companies to publish group accounts and only a small number of balance sheet items had to be separately stated. This lack of specific requirements made Nigam conclude that the basic problems of uniformity in the presentation of accounts and the use of uniform accounting practices remained unresolved.

5.3.2.3 The developments of holding and group accounts

The 1929 companies act did not require the preparation of consolidated accounts, nor prescribed specific accounting principles for subsidiary accounting, despite the call made in December 1922 by Garnsey, mentioned in the previous chapter. This influential auditor continued the debate in 1926, when he explained that holding companies were governed by the companies acts in exactly the same way as other joint stock companies. He advocated the disclosure of more information on the subsidiaries, by either publishing consolidated accounts or a summary of the assets and the liabilities of the subsidiaries, as supplementary information to the ‘legal’ accounts, as this would provide better information of the group as a whole. Regarding balance sheet measurement, Garnsey stated that investments in subsidiaries should be valued at cost, with adjustments for impairments of fixed assets and realised losses. In respect of the profit and loss account, he warned that when profits were recognised by the holding company which had not been declared as dividends by the subsidiaries, these profits were not available for dividend payments by the holding company. In his view, it was not desirable that such profits should be recognised, but where they were, it was advisable to state the amount separately. On the other hand, all trading losses incurred by the subsidiaries should be provided for.

Edwards noted that the number of companies publishing group accounting information increased at a modest rate throughout the 1920s, and they experimented with a variety of reporting procedures additional to those proposed by Garnsey. The equity method received a great deal of support in the beginning, but, by the end of the 1920s, the publication of a supplementary consolidated balance sheet was the most favoured option. And in the 1930s, a practice of publishing of supplementary consolidated accounts gained momentum. It was in particular the ‘Dunlop Rubber Co. Ltd’, headed by De Paula, who led the way in voluntarily devising amended financial reporting procedures. The 1929 accounts of this company were already much expanded compared to the past and attracted favourable press comment, but it were the 1933 accounts which received the acclamation of the business world.

111 See section 4.3.1.4.
112 Garnsey (1926).
Features of the 1933 accounts of the Dunlop Rubber company were the inclusion of a consolidated balance sheet and profit and loss account, the disclosure of all reserves, the inclusion of comparative figures, and a detailed classification of balance sheet items. De Paula himself commented on this development in 1934.\(^\text{115}\) He explained that the act of 1929 was, in his view, inadequate to provide the shareholders of the parent company with the information they needed to assess the true position of the group as a whole, since, under the act, it was not necessary to specify the actual amounts of the profits or losses of any subsidiary or the actual amounts of profits or losses which had been recognised. This could only be resolved by the presentation of consolidated financial statements.

Support for these views from the auditing profession was published in 1936, when the editors of *The Accountant* expressed their dissatisfaction with the fact that the companies act had legislated only the balance sheet of a single company and did not include any provisions regarding consolidated figures.\(^\text{116}\) In their view, such a balance sheet could take cognisance only of legal ownership and legal liability. But consolidation of the profit and loss accounts was even more necessary than consolidation of the balance sheets, and they recommended an amendment of the companies act.

The final initiative regarding consolidated financial statements before the adoption of the 1947 companies act occurred in 1939, when the London Stock Exchange started requiring holding companies seeking quotation to provide their shareholders with a consolidated balance sheet and a consolidated profit and loss account.\(^\text{117}\) However, this was required for new issues only.\(^\text{118}\)

### 5.3.2.4 The response of the auditing profession: the ICAEW Recommendations on accounting principles

The period after the adoption of the 1929 companies act also brought a number of other changes. The profit and loss account started to replace the balance sheet as the principal statement used to assess the developments and prospects of a company.\(^\text{119}\) This increased the importance of dealing with secret reserves, since the significance of such reserves for the profit and loss account was quite different from its impact upon reported balance sheet values.

This was clearly shown in the famous 1931 court case of ‘Rex v. Kylsant and Another’ (i.e. the ‘Royal Mail Steamship Company’). The 1926 accounts of this company showed a trading profit for the year of GBP 439,000, whereas the true position was that a trading loss of GBP 300,000 had been incurred. The difference represented a release of GBP 750,000 from the tax reserve which had not been fully disclosed.\(^\text{120}\) The public response to the findings, together with persistent pressure from the media and politicians, encouraged the Board of Trade to monitor closely the accounting practices and the business attitudes during the 1930s.\(^\text{121}\) However, no governmental action was undertaken.

---

\(^{115}\) De Paula (1934).  
\(^{116}\) The Accountant (1936).  
\(^{120}\) Goch (1969).  
To address the increased dissatisfaction with accounting practices in the late 1930s and early 1940s, the ICAEW took the initiative, in 1942, to develop official accounting pronouncements.\(^{122}\) This auditors’ organisation approved 29 ‘Recommendations on Accounting Principles’ between 1942 and 1969, to offer guidance to the members of the Institute on ‘best practice’. Initially, they focused on tax accounting and on expanded disclosure of discretionary and secret reserves. In 1944, it was proposed that consolidated accounts should be prepared for holding companies and their subsidiaries. At the time, the publication of consolidated statements was (still) not common practice. Although the recommendation was not without precedent, following the 1939 requirement of the London Stock Exchange, it went considerably further than codifying the existing practice. Another recommendation, also issued in 1944, dealt with the form and content of balance sheets and profit and loss accounts. It was published at a time when the ‘Cohen Committee’, described next, was hearing testimony. Much of the first eight ICAEW recommendations were included in the 1945 report of this committee and in the revised company act itself. Between 1953 and 1969, 14 other recommendations were issued, of which several focused again on the treatment of tax in the annual accounts.

Cooke and Wallace noted that the aim of the recommendations was to identify key areas that were causing problems and to advise an appropriate method of accounting.\(^{123}\) They noted that these pronouncements were slow in being issued and not mandatory. In addition, they sometimes provided alternative accounting approaches to the same problem, all of which might lead to a true and fair view. This triggered increasing criticism on the work of the committee. In response to these comments and following some financial scandals, the ICAEW decided to make a major policy change. On 12 December 1969, it approved a ‘Statement of intent on accounting standards in the 1970s’. It contained five points, of which the first four are of interest here:

“It is the Council’s intention to advance accounting standards along the following lines:

- Narrowing the areas of difference and variety in accounting practice;
- Disclosure of accounting bases;
- Disclosure of departures from established definitive accounting standards; and
- Wider exposure for major new proposals on accounting standards.”

At the time of this statement, it was not generally known that the government put considerable pressure on the ICAEW. It was later revealed that “There had been serious risk that, if the Institute had not been prepared to take this matter in hand itself, then the initiative would have been taken away from it by the Board of Trade.” In the first weeks of January 1970, the ICAEW formed the ‘Accounting Standards Steering Committee’, henceforth, the ‘ASSC’.\(^ {124}\) Its activities and pronouncements are described in the next chapter.\(^ {125}\)

\(^{122}\) Zeff (2009).
\(^{123}\) Cooke and Wallace (1995).
\(^{125}\) See sections 6.5.3.2 and 6.5.3.3.
5.3.2.5  The companies acts of 1947 and 1948

The ‘Companies act 1947’ and its successive consolidation act the ‘Companies act 1948’ were the result of the work of the ‘Cohen committee’.\(^\text{126}\) It was established in June 1943 and reported two years later.\(^\text{127}\) It recommended more detailed requirements regarding the balance sheet and the profit and loss account, although standardised forms were opposed. Furthermore, it proposed to require the production of group accounts, with limited exceptions, for instance in case banking and insurance companies had subsidiaries carrying on business of an entirely different character. The report also addressed the use of secret reserves.\(^\text{128}\) It recommended specific disclosures on the reserves and the additions to or transfers from reserves and provisions. However, the Cohen committee also recommended that banking and insurance companies should be given limited exemptions from these requirements so far as they related to reserves and provisions. All these recommendations were subsequently incorporated in the companies act of 1947. The existing publication requirements were maintained.

The main principle of the act was the concept of a “true and fair view” of the state of affairs and the profit or loss for the financial year. The act also introduced, with limited exceptions, the requirement to prepare group accounts in addition to the parent company accounts. Such accounts generally included a consolidated balance sheet and a consolidated profit and loss account. The group accounts should give a true and fair view of the company and the subsidiaries as a whole and, if prepared in the form of consolidated accounts, should comply with the requirements of the act. Banks and insurance companies were (still) allowed to create secret reserves, under the condition that such a practice was clearly disclosed. The accounts of these companies should not be deemed not to give the true and fair view required by the act, by reason only of the fact that they did not comply with any requirements from which the company was exempt. Penrose noted that the act ended the practice that insurance companies filed, as the previous legislation permitted, their prudential returns as their financial statements; instead, they had to prepare and file separate financial statements.\(^\text{129}\) However, as the 1948 act allowed insurance companies to maintain secret and undisclosed reserves, such reserves were still included in the technical provisions presented in the financial statements: there was no need to adjust the amount included in the prudential returns in preparing the financial statements or to apply prudential filters.

In my view, this meant that, in practice, the existing type 3 single-track reporting approach was maintained. As the assurance companies act, described later in this chapter when presenting the UK prudential reporting requirements, was silent in respect of the preparation of group accounts, these new requirements in the 1947 companies act also had no impact on the approach.

In a comment on the new companies act, P.B.M. ten Bosch noted that the UK had accepted secret reserves for decades, which attitude was even approved in a 1906 court decision in the case ‘Newton v. Birmingham Small Arms’: “The purpose of a balance sheet is primarily to show that the financial position of the company is at least as good as there stated, not to show that it is not or may not be better”.\(^\text{130}\)

\(^{126}\) UK Government (1947) and UK Government (1948), respectively.

\(^{127}\) Nigam (1955).


\(^{130}\) ten Bosch (1948).
The Cohen committee considered this situation unsatisfactory and, therefore, proposed a number of requirements to ban the use of “undisclosed, secret or inner reserves”. Ten Bosch also commented on the exemptions for banks and insurance companies, and explained that this was based on a proposal from the committee. The reasoning was that their reputation of solidity was “a national asset of the first importance”, which should not be undermined. This view was supported by Parliament.

5.3.2.6 The companies act of 1967

The ‘Companies act 1967’ was based on the work of the ‘Jenkins committee’. This committee was appointed in 1959 and reported in June 1962. It recommended that the historical cost basis, which had been endorsed by the Cohen committee and was used almost universally, should continue to be the basis on which company accounts were prepared. Furthermore, the committee had come to the conclusion that it would be useful for shareholders to require companies to disclose their revenues. However, it declined to adopt a suggestion that legislation was introduced to make it compulsory for accounts to show, by geographical area and by industry, how the profits were derived and their relationship to the amount of assets employed, because it considered such disclosures too burdensome.

In contrast to the Cohen committee, the Jenkins committee also reported that the statements of ‘special’ companies (such as insurance companies), which were exempted from certain disclosure requirements, could not possibly reflect a true and fair view since the application of the exceptions resulted in a view that was neither true nor fair: it was wrong to use words that could be misunderstood. A large number of recommendations of the committee were included in the 1967 companies act, which, as a result, made the disclosure of the revenues mandatory. Regarding the ‘special’ companies, the act now required the statement that the accounts “have been properly prepared in accordance with the provisions of the Principal Act and this Act” and not that the accounted reflected a true and fair view. In this definition, ‘this act’ meant the ‘Companies act 1967’, and, for insurers, the ‘principal act’ meant the ‘Insurance companies act 1958’, described later in this chapter when discussing the UK prudential reporting developments.

The result was, in my view, that it was, under the companies act of 1967, legally still possible for insurers to adopt the existing type 3 single-track reporting approach, by applying the same accounting principles in the financial statements and the prudential returns.

The adoption of the 1967 act did not follow the traditional pattern: it contained amendments only (but not to the prevailing publication requirements) and was not followed by a consolidating act. A possible explanation was that the act included a number of non-accounting issues, in particular regarding insurance companies. Out of a total of 130 articles of the act, 51 dealt with amendments of the insurance companies act of 1958.

131 UK Government (1967).
133 The Accountant (1962a).
134 The Accountant (1962b).
5.3.2.7 Insurance company financial reporting developments

As is described earlier in this section, insurance companies were subject to all provisions of the companies acts, apart from the requirements to apply any prescribed models and to abolish the use of secret or undisclosed reserves, if they fell under the insurance supervisory acts.

Regarding these acts and the prescribed models for the balance sheet and profit and loss account, Garnsey provided, already in 1925, a number of suggestions to improve the existing models prescribed by the assurance companies act of 1909, in particular by adding revenue accounts for individual lines of business.\(^1\) These proposals were, however, not well received in the auditing profession. According to *The Accountant*, the proposals went too far, were premature, and punished the good companies without reason.\(^2\) If adopted, an exemption, to the discretion of the Board of Trade, should be given to companies existing for more than 30 years. The proposals of Garnsey did not result in any legislative changes.

The actual financial reporting practices of UK insurance companies at the end of the 1960s were assessed in 1974 by Platt, who examined the annual accounts of 34 large insurance companies.\(^3\) He found numerous variations in the form, layout and content and also in certain accounting principles adopted. Regarding the actuarial valuations for life companies, he noted that the intervals varied but, as a result of the companies act of 1967, they now had to be prepared at least every three years. His research revealed that about one-third of the valuations were made annually. In those cases where valuations took place at longer than annual intervals, the amount of the surplus allocated to the shareholders was usually spread in equal instalments over the profit and loss account of the periods between the valuations. Regarding the exemptions provided in the 1967 act, Platt found that it was normal practice for insurance companies to take advantage of these exemptions, in particular those related to the reserves. The survey revealed that 22 of the 34 companies did not show the separate amount of their investment reserves and disclosed, effectively, no useful information except that the balance sheet figures for investments were lower than they would have been on the basic method of valuation. This basic method included the whole range of possibilities: cost, under cost, market value, and directors’ valuation.

5.3.2.8 Summary and conclusions

The descriptions show that the financial reporting requirements in the UK were considerably strengthened in the period 1923-1970.

The companies act of 1928 stated that the annual accounts should include a balance sheet (to be filed for public inspection by interested parties, including investors and creditors), a profit and loss account, and a report by the directors regarding the state of the company’s affairs. However, it did not rule out the use of secret and undisclosed reserves, and did not require the preparation of consolidated accounts. Furthermore, as was the case under the 1908 companies act, life insurance companies were not required to apply the mandatory model for the balance sheet if they reported in accordance with the prudential reporting requirements. This act was followed by the companies act of 1947, which introduced a number of innovations.

---

\(^{1}\) Garnsey (1925).
\(^{2}\) The Accountant (1925).
\(^{3}\) Platt (1974).
These innovations in the 1947 act were partially driven by developments that had occurred in practice, in particular in respect of consolidated financial statements, with the Dunlop Rubber company taking the lead in the 1930s. In 1939, this gained support from the London Stock Exchange, which started requiring such accounts for new issues. However, the 1930s was also the period in which a number of financial reporting abuses came to light, mainly related to the undisclosed transfers to and releases from reserves, resulting in under- or overstatements of reported profits. To address this situation, the ICAEW started to issue non-mandatory guidance statements for its members, discussing a large number of accounting issues, including the preparation of consolidated financial statements.

In the companies act of 1947, the UK government introduced, for the first time, the requirement for a true and fair view in the financial statements, as well as for consolidated accounts, for all companies including insurers: it was no more permitted to file the prudential returns as the official financial statements. Furthermore, the act included much more detailed requirements in respect of the details to be included in the financial statements (among others, movement schedules of the reserves and the provisions), and, generally, prohibited the use of secret and undisclosed reserves. However, banks and insurance companies were exempted from this prohibition. At the same time, if these companies applied such practices, this should be clearly disclosed. Prudential filters were not discussed. This approach was maintained in the final companies act adopted in the period, the companies act of 1967. The legislation, therefore, still enabled (but not required) insurance companies to maintain a type 3 single-track reporting approach, introduced in 1929. A review of the actual reporting practices of insurance companies at the end of the 1960s showed that they used the available exemptions on a wide scale, without, however, always disclosing this to the outside world. Furthermore, the majority of the companies still applied the practice to determine their technical provisions on a multi-year basis and not annually.

5.3.3 Financial reporting developments in the US

5.3.3.1 Introduction
As is described in the previous chapter, Mueller identified several forces influencing the development of US GAAP. In the period reviewed in this chapter, the most important of these was, in my view, the establishment of the SEC, since this organisation can be characterised as the main driver of several important changes in the way in which accounting principles were established by the private sector, as well as regarding the contents of a number of these principles. For this reason, the background and the activities of the SEC are described first, followed by an overview of the activities of the NYSE, which triggered a number of developments in the auditing profession. The latter included, among others, the establishment of the ‘Committee on Accounting Procedure’ (henceforth, the ‘CAP’) and its successor, the ‘Accounting Principles Board’ (henceforth, the ‘APB’). This section includes a brief overview of the pronouncements of these two standard setting organisations, in particular those that were relevant for insurance companies.

---

142 See section 4.3.2.2.
Finally, the section refers to the discussions in the accounting literature on the applicability of US GAAP to the financial statements of insurance companies and the growing dissatisfaction with the practice that these accounts had to be prepared in accordance with the prudential requirements, without additional information and prudential filters (a type 1 single-track reporting approach), which resulted in a change to a type 3 approach, under which additional information was provided.

5.3.3.2 The Securities and Exchange Commission

The SEC was created in 1934 to administer the ‘Securities act of 1933’ and the ‘Securities exchange act of 1934’. While the 1933 act regulated the issuance of securities in interstate markets, the 1934 act dealt, in the main, with the trading of securities on national securities exchanges. The two acts created the first national securities legislation in the US and, effectively, took over the state laws described before. To protect the ‘public interest’ (in particular, the interest of investors), they conferred on the SEC broad authority to determine the accounting and auditing practices used by companies in the preparation of their reports required under the acts. However, neither of these acts nor any others contained detailed provisions relating to financial accounting and reporting. The 1934 act was also applicable to so-called ‘foreign issuers’, i.e. companies domiciled in another country which listed their securities on a US stock exchange. In respect of such companies, the SEC was authorised to allow the companies to use their local accounting standards in preparing and filing their financial statements. To improve transparency for US investors, the SEC required these companies, from 1967 onwards, to disclose in their financial statements the material variations of US GAAP and the requirements of the SEC, including the effect of each such a variation. However, a line-by-line reconciliation was, at the time, not required.

Mueller noted in 1967 that, after the introduction of the acts, US securities legislation required that companies whose securities were listed on national stock exchanges should file annual reports with the SEC for its review. Thus the SEC was deeply involved with the application of accounting practices. In practice, however, although the SEC had the power to issue and enforce its own accounting requirements, it had relied mostly on the use of GAAP as defined by the private sector (described hereafter) over the years. In areas where such GAAP was either unavailable or unsecure, the SEC was forced to formulate its own rules. This occurred from time to time through its ‘Accounting Series Releases’.

In its approach to protect the ‘public interest’, the SEC sought cooperation from the private sector, in particular the auditing profession. It initially advocated ‘uniformity’ as the most effective remedy for the abuses in financial reporting. However, auditors sought to modify this demand, and for many years the profession would debate the merits of ‘flexibility’ versus ‘uniformity’ in developing accounting standards. During the years 1937-1938, the SEC became increasingly concerned about the auditing profession’s inability or unwillingness to standardise accounting principles.

---

143 Zeff (1971).
144 See section 4.3.2.2.
In 1938, the SEC announced that, unless a satisfactory source of ‘authority’ was created, the determination of accounting principles and methods used in reports to the SEC would be exercised by itself, as authorised under the 1933 act. The message to the auditing profession was clear and unambiguous. In response to this criticism, the AIA decided to reorganise and strengthen its CAP. The pronouncements of this committee are discussed later in this section. The requirements for listed insurance companies were identical to those of other companies, apart from the applicability of a specific industry guide nr. 6 in respect of additional disclosures for non-life insurance companies of their unpaid claims and claim adjustments expenses. As is explained later in this section, the CAP issued only two pronouncements relevant for insurance companies, which, however, dealt only with a few isolated topics.

5.3.3.3 Activities of the New York Stock Exchange

The major US stock exchanges had an important influence on the development of accounting in the US. In this activity, the NYSE probably held the leadership position. The exchange showed a clear focus on the interest of investors and, through its listing requirements, requested periodic financial reports to shareholders as one of the conditions for listing securities. Comparative financial statements, consolidated financial reports and various financial disclosure requirements were among the items the exchange insisted upon. In broad terms, the financial statements should conform to US GAAP in order to be acceptable. The following overview of the activities of the NYSE is based on a description by Zeff.

The NYSE started, in 1926, to expand the financial disclosures of listed companies, after the first cautious steps described in the previous chapter. These activities accelerated after the stock market had suffered a massive decline in October 1929. Some had cited inferior financial reporting practices as a cause. The exchange had also become concerned about the variety of accounting methods that were employed by different companies to reflect similar transactions. In response, the AIA proposed that every company should adopt a method of accounting, which should be described in considerable detail. Part of this proposal was a list of five “broad principles of accounting which have won fairly general acceptance” and, within the limits of those principles, all listed companies should be allowed “to select detailed methods of accounting deemed by them to be best adapted to the requirements of their business.” For this dissertation, the two most important principles were that unrealised profits should not be included in the profit and loss account, and that reserves should not be used to relieve the profit and loss account of the current or future charges which would otherwise be included. The exchange should seek assurance from each listed company that it would apply its chosen accounting policies consistently from year to year and that it would provide the exchange and its shareholders, upon request, with a list of such policies. Based on a survey, the exchange concluded in October 1933 that these “principles should now be regarded by the exchange as so generally accepted that they should be followed by all listed companies – certainly, that any departure therefrom should be brought expressly to the attention of shareholders and the exchange.” However, the exchange never adopted the suggestion that listed companies should file, and make available to their shareholders, a list of their accounting policies.

---

153 Zeff (1971).
154 See section 4.3.2.4.
After this period, the NYSE actively monitored the activities of the auditing profession to improve accounting standards, but did not undertake new own initiatives. Only at the end of the period reviewed in this chapter, in 1969, the exchange took a further step and announced that banks and insurance companies would no longer be exempt from the requirement to submit audited financial statements in listing applications.  

5.3.3.4 Activities of the auditing profession

The AIA continued its work on the development of accounting standards after having issued its report ‘Uniform accounting’ in 1917, as is described in the previous chapter. In 1918, the ‘Special Committee on Procedure’ was reactivated to express opinions on particular accounting issues. However, this committee was not very active: until it was reorganised in 1936, it only issued two memoranda, both on the treatment of foreign currencies. And in 1920 and 1936, the AIA published updated and rewritten versions of its 1917 report, which were subsequently acknowledged by the FRB. Further steps were taken in 1933, with the establishment of the ‘Special Committee on the Developments of Accounting Principles’. This committee existed until 1936, when it was renamed the CAP.

The CAP was the committee that was most actively involved in issuing ‘Accounting Research Bulletins’ (henceforth, ‘ARBs’), discussed hereafter. It had, under the influence of the SEC, a focus on the interest of investors, although, in several pronouncements, it also identified others as interested parties.

To strengthen the process of standard setting, initiatives were taken in 1957 by the auditing profession (by then, the AICPA) to reorganise its committee structure. A report prepared by a special committee, issued in September 1958, noted: “The broad problem of financial accounting should be visualised as requiring attention at four levels: first, postulates; second, principles; third, rules or other guides for the application of principles in specific situations; and fourth, research.” As a result, on 1 September 1959 the APB came into existence. To support the APB authority, the AICPA agreed, in October 1964, that any departures from the APB opinions, including their impact, should be disclosed either in the auditor’s report or in the footnotes to the financial statements. However, also the ASB was not consistent in its definitions of the users of financial statements.

Further initiatives to strengthen the organisation of accounting standard setting were developed in February 1971, when the AICPA decided to appoint two study groups to explore ways of improving its function of establishing standards of financial reporting. The first study group should review the operations and the second one should seek to refine the objectives of financial statements.

---

155 I have not been able to retrieve information on this former exemption, and when it was introduced.
156 See section 4.3.2.3.
157 This and other reorganisations were probably the result of the merger of the AIA with the ‘American Society of Certified Public Accountants’, formed in 1921. This merger was mentioned in Zeff (2003).
159 Normand and Wootton (2001).
161 Zeff (2013).
162 Ibid, p. 171-172.
163 This view was included in a document, entitled ‘Disclosures of departures from opinions of the APB’, reproduced in APB 6.
164 Zeff (2013).
The chairman of the first study group was Wheat; the chair of the second one was Trueblood.\textsuperscript{165} Their findings are described in the next chapter.\textsuperscript{166}

5.3.3.5 The Accounting Research Bulletins
An overview of the first 42 bulletins issued between 1939 and 1952 was provided by Kohler.\textsuperscript{167} The proposed objectives were included in the introduction to ARB 1. It was issued in 1939 and included seven basic principles, the most important of which were that profit could only be recognised from sales, and that paid-in capital should not be adjusted for items that would ‘otherwise’ be charged to profit and loss. The bulletins impacting insurance companies discussed comparative statements (ARB 6), definitions (ARB 7, ARB 9, ARB 12 and ARB 22), combined statements of income and earned surplus (ARB 8), income tax (ARB 17, ARB 18, and ARB 23), amortisation of intangibles (ARB 24), contingency reserves (ARB 28), surplus (ARB 32 and ARB 39), use of the word ‘reserve’ (ARB 34), net income (ARB 35 and ARB 41), annuity cost (ARB 36), and business combinations (ARB 40).\textsuperscript{168}

Of these bulletins, two were of particular relevance to insurance companies. The first was ARB 28, issued in August 1947, dealing with contingency reserves, or, as they would be called today, contingency provisions.\textsuperscript{169} According to this bulletin, charges or credits relating to such provisions should not be used to determine profit or loss. This, effectively, introduced a prohibition to create catastrophe and equalisation provisions. The second bulletin published in November 1948, was ARB 34, commenting on the use of the word ‘reserve’.\textsuperscript{170} This term was widely used in insurance accounting, generally referring to liabilities arising from insurance contracts. In the document, the committee stated that the word ‘reserve’ should only be used to indicate that a quantified and specified portion of the net assets was being held or retained for a special purpose. In this sense, a reserve was effectively an appropriation of retained earnings.

ARBs 1 to 42 were superseded by ARB 43, issued in June 1953.\textsuperscript{171} It eliminated what was no longer applicable, condensed and clarified what continued to be of value, and revised where changes of view required revision. ARB 43 also clarified the authoritative status of the bulletins: except in cases in which formal adoption by the AIA had been asked and secured, the authority of opinions reached by the committee rested upon their general acceptability. The committee recognised that, in extraordinary cases, a fair presentation and justice to all interested parties could require an exceptional treatment.

After ARB 43, another eight bulletins were issued between October 1954 and August 1959.\textsuperscript{172} Some of these superseded or amended earlier pronouncements, such as ARB 47 (dealing with accounting for the costs of pension plans), ARB 48 (regarding business combinations), or ARB 50 (focusing on contingencies).

\begin{footnotes}
\item 165 Zeff (1971), p. 225.
\item 166 See sections 6.5.2.1 and 6.5.2.3, respectively.
\item 167 Kohler (1953).
\item 168 The bulletins in respect of business combinations and intangibles are discussed later in this section, when describing the history and contents of APBs 16 and 17.
\item 169 AIA (1947).
\item 170 AIA (1948).
\item 171 FASB (2006), volume III, p. ARB 43-1 to ARB 43-40.
\item 172 Ibid, p. ARB 44-1 to ARB 51-5.
\end{footnotes}
However, ARB 51, entitled ‘Consolidated financial statements’, introduced a new topic. This bulletin started from the presumption that consolidated statements were more meaningful than separate statements and that they were usually necessary for a fair presentation when one of the companies in the group directly or indirectly had a controlling financial interest in the other companies. In the case of heterogeneous activities within a group, separate or combined statements were preferred over full consolidation. Regarding unconsolidated subsidiaries, the preferable method was equity accounting.

5.3.3.6 The search for a conceptual framework
The first activities of the APB focused on an attempt to develop a foundation on which to base its future accounting pronouncements. In other words, to develop a ‘conceptual framework’, as it is called today. However, as Zeff described, this was not the first attempt in this area.\(^{173}\) Initiatives had already been developed in the 1920s by the AIA, Paton and Canning, and in the 1930s by the ‘American Accounting Association’ (henceforth, the ‘AAA’), an organisation of accounting academics. After two research publications in 1961 and 1962, which were both not accepted by the APB as “too radically different from present generally accepted accounting principles for acceptance at this time”, the APB published in 1965 ‘Accounting Research Study no. 7’, written by Grady, entitled ‘Inventory of generally accepted principles for business enterprises’.

This study drew on the current pronouncements and the existing accounting practices to bring together a hierarchy of basic concepts, objectives, and principles, constituting an overview of accepted practices.\(^{174}\) In my view, it therefore can be seen as a comprehensive overview of contemporary accounting regulations. Furthermore, as is shown in the subsequent chapters, it provided a basis on which numerous future US standards would be built. The study was also the starting point in the preliminary discussions on the development of Dutch financial reporting standards, as is described in the next chapter.\(^{175}\)

The document first discussed the meaning of the term ‘accepted principles’, and explained that the term ‘accepted principles of accounting’ came into general use in the reports of auditors as a result of the correspondence between an AIA committee and the NYSE in 1932-1934.\(^{176}\) In earlier correspondence, the term ‘accepted accounting principles’ was used and a letter from the president of the exchange to the presidents of listed companies had stated that auditors’ reports should provide the answers to the following questions:

- Whether, in their opinion, the form of the balance sheet and of the profit and loss account was such as to fairly present the financial position and the results of operation;
- Whether the accounts, in their opinion, were fairly determined on the basis of a consistent application of the system of accounting regularly employed by the company; and
- Whether, in their opinion, such a system conformed to accepted accounting practices, and particularly whether it was in any respect inconsistent with any of the principles set forth in the statement attached hereto.

---

\(^{173}\) Zeff (1999).


\(^{175}\) See section 6.4.3.2.

\(^{176}\) AICPA (1965), p. 47-53.
Subsequently, the 1965 report discussed the sources to determine these accepted practices. It stated that the sources with substantial authoritative support were:

- The practices commonly found in business;
- The requirements and views of the stock exchanges as the leaders in the financial community, and the views and opinions of commercial and investment bankers;
- The regulatory commissions’ uniform systems of accounts and accounting rulings exercising a dominant influence on the accounting practices of the industries subject to their jurisdictions (in my words, the prudential reporting requirements);
- The regulations and accounting opinions of the SEC as the controlling authority over any reports filed with the SEC;
- The affirmative opinions of practicing and academic certified public accountants; and
- Published opinions by committees of the professional auditing organisations.

As is described later, this overview of sources provided an important contribution to the frameworks of the US accounting standard setter, but also of the IASC. However, it also played a role in the pronouncements in respect of specific standards for insurance companies.

Based on these sources, the 1965 report presented its ‘Summary of generally accepted principles of accounting for business corporations on an historical basis’. It was structured into five objectives, which each contained a number of principles. The objectives focused on:

- Accounting for sales, revenues, income, cost of sales, expenses, gains and losses;
- Accounting for transactions with owners and movements in equity;
- Accounting for assets;
- Accounting for liabilities; and
- The compliance of financial statements with the applicable reporting standards included in generally accepted auditing standards, with the presumption that consolidated statements were more meaningful than separate statements.

5.3.3.7 The Opinions of the Accounting Principles Board
In September 1959 the AIA established the APB, to strengthen the process of setting accounting standards. As a first step, the APB approved a resolution, stating that the existing ARBs (nrs. 43 to 51) should be considered as continuing in force with the same degree of authority as before.

The first ‘Opinion’ of the APB was issued in November 1962. In the period reviewed in this chapter, an additional 14 would follow. This section discusses those with relevance to this dissertation.

---

177 See sections 6.5.2.3 and 7.4.3.2, respectively.
178 AICPA (1965), p. 56-68.
The first of these was APB 3, issued in October 1963.\textsuperscript{181} It dealt with the statement of source and application of funds. Shortly after having issued APB 6, discussing the status of the ARBs, the APB decided it had to change its approach. This was the result of a warning by the SEC, near the end of 1965, that it was beginning to lose its patience and that it would develop own initiatives if the APB was not moving, with reasonable dispatch, to deal with the open issues.\textsuperscript{182} However, the pressure did not come from the SEC alone: also the ‘Big Eight’ (audit) firms and an increasing number of corporate mergers requested increased attention on earnings-management.\textsuperscript{183} To address these concerns, the APB began to issue longer and more prescriptive opinions.

At the end of 1966, the APB issued three opinions. The first was APB 8, published in November, dealing with pension cost accounting.\textsuperscript{184} The second was APB 9, entitled ‘Reporting the results of operations’.\textsuperscript{185} It was issued in December 1966, and resolved a debate which had been ongoing since the issuance of ARB 32 and, subsequently, ARB 43. In APB 9, the APB concluded that the net income should include all items of profit and loss recognised during the period with the sole exception of the prior period adjustments. Extraordinary items should, however, be segregated from the results of the ordinary operations and shown separately in the profit and loss account, disclosing the nature and amounts thereof. Prior period adjustments should be reflected as adjustments of the opening balance of retained earnings, with a restatement of the comparative figures.

As Zeff noted, with the issuance of APB 9, the APB finally accepted, in principle, the ‘all-inclusive’ notion of the profit and loss account, which was so long advocated by the SEC.\textsuperscript{186} The third opinion, also issued in December 1966, was APB 10, a so-called ‘Omnibus opinion’, covering several topics, such as consolidated statements, and pooling of interest.\textsuperscript{187}

For the period reviewed in this chapter, three other opinions should be mentioned. The first was APB 11, issued in December 1967. This opinion dealt with income taxes, recommending that tax allocation should be applied in all circumstances where differences of timing existed.\textsuperscript{188} However, the two most important opinions were APBs 16 and 17, dealing with business combinations and intangible assets, respectively. These opinions were both issued in August 1970.\textsuperscript{189}

APB 16 resolved the longstanding debate on accounting for business combinations. Both purchase and pooling of interests accounting had been accepted in practice and supported in the pronouncements of the APB and its predecessor. Under the purchase method, the cost of the acquired company recorded at the date of acquisition represented the entire payment, including any contingent consideration if determinable, applying the principles of accounting for the acquisition of an asset, and including the direct costs of acquisition. That entire cost should then be allocated to the identifiable individual assets acquired and the liabilities assumed based on their fair values, and any unallocated cost should be recorded as goodwill.

\begin{itemize}
  \item \textsuperscript{181} Ibid, p. APB 3-1.
  \item \textsuperscript{182} Zeff (1971), p. 192.
  \item \textsuperscript{183} Zeff (2003).
  \item \textsuperscript{184} FASB (2006), volume III, p. APB 8-1.
  \item \textsuperscript{185} Ibid, p. APB 9-1 to APB 9-7.
  \item \textsuperscript{186} Zeff (1971), p. 200.
  \item \textsuperscript{187} FASB (2006), volume III, p. APB 10-1 to APB 10-4.
  \item \textsuperscript{188} Zeff (1971), p. 200-202.
  \item \textsuperscript{189} FASB (2006), volume III, p. APB 16-1 to APB 16-24 and p. APB17-1 to APB 17-8.
\end{itemize}
Under the pooling of interests method, a new basis of accounting was not permitted, and the assets and the liabilities of the companies involved were combined at their recorded amounts. The balance sheets and the profit and loss accounts should be combined as if the combination had occurred at the beginning of the reporting period. Any acquisition expenses were charged to the profit and loss account.

Rayburn and Powers described that the pooling of interests method was already recognised in the 1920s, but was debated since. During the period 1945-1950, several initiatives were taken to address the accounting issues:

- ARB 24, issued in December 1944, addressing goodwill, which introduced two different methods of goodwill amortisation, depending on the existence of a definitely limited useful life. As the same time, it did not prohibit the initial write-off of goodwill against the subscribed capital but strongly discouraged such a practice;
- SEC’s Accounting Series Release nr. 50, issued in January 1945, stating that no goodwill could be written off to capital surplus; and
- ARB 40, issued in September 1950, including four criteria to differentiate a purchase and a pooling of interests.

In June 1953, ARB 24 and ARB 40 were amended by ARB 43, which implemented the SEC position on goodwill accounting. Gradually during this period, the strict requirements in respect of accounting for business combinations were weakened, effectively allowing pooling for almost all transactions, as an alternative to purchase accounting.

Early in 1969, the SEC began to express its concerns on this situation. And, in February 1969, the debate reached the level of the government, when the Federal Trade Commission recommended “that the SEC immediately require pooling of interests to be eliminated as the normal mode of accounting for acquisitions involving the exchange of stock. For purchase transactions, the establishment of goodwill accounts should be discouraged.” This resulted in more public debate, which, ultimately, resulted in APBs 16 and 17, accepted by the SEC and the stock exchanges.

In APB 16, the APB concluded that the purchase method and the pooling of interests method were both acceptable in accounting for business combinations, although not as alternatives for the same business combination. A business combination that met specified conditions required accounting by the pooling of interest method. The conditions mainly focused on the position of the shareholders before and after the business combination: this should, in substance, remain unchanged. All other business combinations should be accounted for as an acquisition, using the purchase method.

APB 17 required a company to record any intangible assets acquired from others as assets, including goodwill acquired in a business combination. The cost of each type of intangible asset should be amortised by a systematic charge to the profit and loss account over the estimated benefit period. The period of amortisation should not, however, exceed 40 years.

191 Zeff (1971), p. 212-216. For more information on this organisation, see section 4.3.2.3.
5.3.3.8 Other influential factors

The final factors of influence on financial reporting developments were the US federal income tax and the US Internal Revenue Service charged with the tax collection. Although this influence was largely indirect, it was pervasive. The reason was that many companies felt that they were best off by keeping only one set of financial records for a number of items. Under the US’ pattern of financial reporting developments, this meant that certain accounting concepts and procedures came into general use as tax requirements and, once this occurred, were well on the road to the status of GAAP. It seemed to Mueller that this was exactly what happened, for example, in the areas of accounting for pensions in the US.

5.3.3.9 Insurance company financial reporting developments

During the period reviewed in this chapter, the first comments on insurance companies started to appear in the generic accounting literature. In general, the publications provided comments on the financial statements of life insurers, which were fully aligned with the prudential statements (i.e. a type 1 single-track reporting approach), described later in this chapter.

The first article was published by Mather in April 1941 and noted that a life insurance company was required to file, each year with each state in which it did business, complete and detailed accounts of its financial condition. Two statements were called ‘assets’ and ‘liabilities’, two other ‘income’ and ‘disbursements’. However, he noted, the latter two were basically cash receipts and payments, with some adjustments, and therefore did not represent a proper profit and loss account.

The reporting practices of insurance companies were further discussed by Schaffer in 1960. He described, firstly, the activities of the AICPA in respect of insurance accounting, and mentioned that it decided at the outset – given the lack of literature on the accounting policies and practices of insurance companies and the related prudential regulations which they had to observe – that its first and foremost task should be the development of written material, in the form of a comprehensive guide with respect to insurance company audits. There would be two booklets: one for life insurance, and one for fire and casualty lines of insurance business. The latter was described as “nearing completion”. Priority was given to this business because it was in this area that the prescribed methods of financial reporting were deemed to be most at variance with the principles and practices which were generally considered appropriate for business commercial companies in general. History has subsequently shown that the anticipated timeline for completion was excessively overoptimistic: the first AICPA insurance audit guide for this business was published only in 1966.

In the second part of this article, Schaffer described the accounting environment for US non-life insurance companies. He noted that the insurance legislation of many states contained provisions which, in essence, prohibited the publication by insurance companies of financial statements based on accounting practices differing from those used in preparation of the prudential statements; however, it was not prohibited to present additional financial data. Under the prudential regulations, recognition of any prepaid expenses and other deferred charges was not allowed, resulting in undisclosed reserves of 35-40 per cent of the provision for unearned premiums.

---

193 Mather (1941).
194 Schaffer (1960).
In most cases, these undisclosed reserves were highly material in relation to the total amount of equity. Another variance was that shares were, in general, carried at market or appraised values. Debt securities were, however, at amortised cost. There was no provision for income tax with respect to the unrealised appreciation of investments. Realised gains and losses had to be included in the profit and loss account, and unrealised amounts in the reserves, with a transfer to the profit and loss account at realisation. Other unusual practices were the elimination of so-called ‘non-admitted assets’ (which included, among others, carry-back tax claims), the requirement to establish provisions for claims outstanding that were higher than realistic, and the elimination of receivables on non-authorised reinsurers. He explained that listed companies solved the problem by filing with the SEC supplementary statements, which were customarily entitled ‘Adjusted earnings’ and ‘Capital stock equity’, including the adjustments from the prudential accounting principles to GAAP. In my view, this practice can be qualified as a type 3 single-track reporting approach. I have, however, not been able to find information that enabled me to assess the qualitative impact of the adjustments and the number of companies that applied this practice, as I have not found a comprehensive overview of US listed insurers in the 1950s.

5.3.3.10 Summary and conclusions

The descriptions of the financial reporting developments in the US in the period show that, although there was no direct legislation in this area, the US government had taken a legislative step that had (and, as the next chapters show, would continue to have) an important impact on these developments.

This was, in 1934, the creation of the SEC (focusing on protecting the interest of investors), which was given broad authority to determine the accounting practices by companies listed on a stock exchange in the US. From the start, the approach of the SEC was to encourage the private sector, in particular the auditing profession, to develop the accounting standards which had to be applied. Only in areas where there were no standards, or when the SEC considered them inadequate, it stepped in by issuing its own requirements in the form of Accounting Series Releases.

Next to the SEC, also the NYSE, as the most important and influential stock exchange in the US, became more involved in the developments, by issuing specific requirements for listed companies concerning comparative figures, consolidated financial reports, and expanded disclosure requirements.

Under these pressures, the auditing profession started to develop a large number of pronouncements to determine the ‘generally accepted accounting principles’, to be applied by all for-profit companies when preparing their financial statements. Initially, these pronouncements were issued in the form of Accounting Research Bulletins or ARBs: between 1939 and 1959, 51 ARBs were published, covering a wide variety of individual topics, and which, in the 1950s, mentioned the need of a “fair presentation” of the company’s financial position and results. In 1959, the APB was created, which started to issue ‘Opinions’ on specific individual topics. Auditors were obliged to consider whether departures of these opinions were defendable and, if not, to assess the consequences, if any, for their auditor’s reports. However, most of the early opinions were (still) more directed to a codification of existing practices than to fundamental improvements.
Next to focusing on individual topics, the APB also attempted to develop a conceptual framework to base future standards upon, following up several initiatives already taken between 1922 and 1940. In the first years of the APB, this was not successful, since both the SEC and the APB itself adopted a rather conservative approach. This changed in 1965, when Grady prepared a research study that built on the existing pronouncements and accounting practices, but brought them together in a hierarchy of basic concepts, objectives and principles. One of these was the requirement to “fairly present” the financial position and results of operation. As is described in the following chapters, this study formed the basis for numerous future US accounting standards, but also for a number of financial reporting developments in the Netherlands.

Based on these ‘postulates’, but also under significant pressure from the SEC, the large audit firms, and the business community, the APB started, from that moment onwards, to issue longer and more prescriptive opinions, of which those on the accounting treatment of business combinations (APB 16) and goodwill (APB 17) were the most important ones in the period described in this chapter. Both resolved longstanding debates on these issues and brought clarity on what was considered as accepted practices.

Concerning the financial statements of insurance companies, the most important issue that evolved was their basis of accounting: driven by existing state legislation, insurers based their financial statements on prudential reporting requirements (initially a type 1 single-track reporting approach, later, by the inclusion of additional information, replaced by a type 3 approach), which differed considerably from the requirements for other companies, making an appropriate comparison very difficult.

5.3.4 Financial reporting developments in the Netherlands

5.3.4.1 Introduction
This section presents the financial reporting developments in the Netherlands. It first shows, after the failed attempts in the earlier period, the successive steps of the government to amend the commercial code. Subsequently, it presents the fundamental reform of the civil code, and the establishment, in 1970, of an act on the annual accounts. It also shows the introduction in Dutch legislation of a mandatory single-track reporting approach for life and non-life insurers under the prudential reporting requirements described later in this chapter.

The 1970 act was, in part, the government’s response to a number of private initiatives, in particular between mid-1955 and mid-1965, to improve financial reporting practices. This included recommendations from a number of different parties, starting with the employers’ organisations, but also involving a financial newspaper, research bureaus of several political parties, and a users’ organisation.

The section subsequently discusses the growing involvement of the auditing profession and the stock exchange in the process of setting financial reporting requirements, to conclude with a description of the discussions on a number of general accounting issues.
5.3.4.2 Legislative developments

5.3.4.2.1 The ‘Heemskerk’ proposal of 1925 and the 1928 commercial code

In April 1925, the government started a new initiative to amend the commercial code, including provisions on the financial statements of joint stock companies. It concerned the submission of a revised bill (nicknamed, the ‘Heemskerk’ proposal, after the name of the serving Minister of Justice), accompanied by a report of the parliamentary committee charged with the preparation of the discussions in the Second Chamber.196 As is explained in the previous chapter, no progress had been made since 1910, as a result of a stalemate between the government and Parliament in respect of the treatment of private companies.197 The discussions resumed in 1918 with the installation of a new parliamentary committee, with the revised bill as a result.198 This new committee issued its interim report in December 1919, on which the government responded in January 1925.199

According to the report, the government had decided to use the bill of 1910 as the basis for its revised proposals, as it still supported the three basic principles underlying this bill:

- Full publicity on the organisational structure of and the division of powers within a joint stock company;
- Protection of the equity of the company; and
- Regulation of the liability of the management and supervisory boards.

The bill also maintained the earlier idea to abolish the system of advance Royal authorisation,200 but replaced it with the requirement that there should be no objection from the Minister of Justice to the incorporation of a joint stock company. Such an objection would only be possible if the company would be in conflict with “goede zeden” (common decency) or the public order, the provisions of the law, or in case the incorporators did not participate for at least 20% in the authorised capital. Regarding the debate on public vs. private companies, the government argued that, in the interest of third parties, there should be no difference regarding the publicity requirements between these two categories. However, in order to reflect the different levels of involvement of the shareholders, a distinction was proposed regarding some other elements in the bill, e.g., the general meeting of shareholders.

In the area of financial reporting, the proposals on the mandatory publication of the balance sheet and the profit and loss account were maintained by submitting these statements to the trade register and making them, thus, available for public inspection. The bill did not prescribe the formats of the statements, in line with the recommendations of the Kist committee described in the previous chapter.201 However, it did include a requirement to disclose a description of the policies by which the movable and immovable properties of the company had been valued.

196 Tweede Kamer (1925), nr. 69.
197 See section 4.3.3.2.4.
198 Zeff et al. (1992), p. 41.
199 Tweede Kamer (1925), nr. 69.
200 See section 4.3.3.2.
201 See section 4.3.3.2.3.
Zeff et al. described that the reactions from the business community on the bill were very negative. On the other hand, the NIVA (one of the Dutch auditors’ associations) supported the bill, but recommended the government to be more specific about the contents of the balance sheet, in particular the disclosure of 12 specific items in this statement.

It took another two years before the next step was taken. This occurred in January 1927, when the government submitted a revised bill to the Second Chamber. Regarding the financial reporting requirements, the government referred to legal requirements in Austria, Germany and the UK, and now proposed an amendment to the publication provisions, to resolve the debate on public vs. private companies. The suggestion was to open the possibility of an Administrative Decree, under which the obligation to publish the annual accounts could be waived. During the parliamentary discussions on the bill, the Second Chamber approved an amendment that deleted the proposed Administrative Decree in respect of the publication requirements for designated companies.

As a result, the final bill adopted by the Second Chamber on 1 April 1927 required the publication of the balance sheet and the profit and loss account by all joint stock companies, without the opportunity to exclude some from this obligation.

In its submission of the revised bill to the First Chamber in May 1928, the government noted that it was not happy with the decisions of the Second Chamber on the publication requirements. The Minister made it clear that, in case practice would show that the system was not adequate, he would not hesitate to propose amendments to the new act.

This remark by the Minister of Justice, combined with renewed requests from the business community including the Stock Exchange Association, fuelled a heated debate on this issue in the First Chamber. In the end, this was resolved by a promise of the Minister that he would immediately install an expert committee to look at the issue and to prepare amendments, if necessary. This was the ‘Visser committee’, described in the next section. With this promise, the First Chamber adopted the bill in June 1928. The act was published shortly after. It was effective as of 1 April 1929. This meant that the publication provisions were in force for the annual accounts regarding the financial years starting after this date.

5.3.4.2.2 The proposals of the ‘Visser committee’ and the commercial code of 1929
During the deliberations of this committee, chaired by L.E. Visser, a member of the Supreme Court, virtually no articles appeared in the accounting literature, commenting on their mission. The only relevant contribution was made by the auditor W.N. de Blaey, who provided a number of suggestions regarding the publication requirements. In his view, a distinction should be made between public companies, private companies, and semi-public companies. Next to listed companies, the first category should include companies in the businesses of accepting obligations with a wide impact on society.

---

203 Ibid, p. 50.
204 Tweede Kamer (1927a), nr. 27.
205 Tweede Kamer (1927b), Handelingen 1 april 1927.
206 Eerste Kamer (1928), Handelingen 19 juni 1928.
207 Minister van Justitie (1928a), Staatsblad 1928, nr. 216.
208 Minister van Justitie (1928b), Staatsblad 1928, nr. 364.
209 de Blaey (1928).
In de Blaey’s view, examples of such public, non-listed, companies were building companies, life insurance companies, and, possibly, banks and credit institutions. He recommended that public companies should provide a “juist” (correct) and “volledig” (complete) overview of the financial position and liquidity position, disclosing the accounting policies for the assets as well as for the liabilities, and any unrecognised assets and liabilities. Furthermore, they should provide details of the “bedrijfsresultaat” (operating profit), distinguishing between normal and abnormal results. Finally, they should present the profit appropriation. In his view, this required models for the balance sheet and the profit and loss account, aligned to specific industry requirements.

The government submitted in January 1929 a bill to amend the publication requirements in the revised commercial code, based on the recommendations of the committee.\(^\text{210}\) The report of the committee, included as an annex to the explanatory memorandum to the bill, made it clear that its members (auditors, lawyers and business men) had been strongly divided. The ultimate recommendations were therefore presented as the best achievable compromise, which could be supported by a vast majority of the members. Apart from one change, these recommendations were integrated in their entirety in the bill, which proposed to limit the mandatory publication of a balance sheet to the following categories:

- Joint stock companies which had issued or were capable of issuing bearer shares for a total amount of NLG 50,000 or more (on this topic, the committee had proposed NLG 100,000);
- Joint stock companies which had issued bearer bonds;
- Listed joint stock companies; and
- Joint stock companies active in deposit-taking or insurance activities.

The first three categories were, in my view, clear examples of a focus on the protection of the interest of investors. The last category focused on the interest of the public at large, which can be explained by the nature of the activities of the involved companies.

In case the publication was mandatory, the balance sheet should include at least a number of specified assets, and the proposal to require the publication of a profit and loss account was dropped. The committee assumed that the companies would be wise enough to provide an appropriate distinction of the liabilities without legal pressure. The list was, without substantive changes, adopted by the Second Chamber, presented hereafter and reproduced in annex 9, which includes a comprehensive overview of recommended and mandatory layouts of the balance sheet and the profit and loss account. The revised code included nothing specific in respect of the appointment of auditors, a profession that, as is explained later in this section, would only be legally recognised in 1962.

\(^{210}\) Tweede Kamer (1929a), nr. 283.
Table 5.1: Commercial code of 1929 – minimum list of assets

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and immediately enforceable claims on banks, cashiers and giro institutions</td>
<td></td>
</tr>
<tr>
<td>Investments in other companies and amounts receivable from companies in which the investments are made</td>
<td></td>
</tr>
<tr>
<td>Securities listed on an exchange, in so far as the holding of them does not qualify as an investment in other companies</td>
<td></td>
</tr>
<tr>
<td>Securities not listed on an exchange, in so far as the holding of them does not qualify as an investment in other companies</td>
<td></td>
</tr>
<tr>
<td>Receivables not classified above</td>
<td></td>
</tr>
<tr>
<td>Movables assets being processed or intended for processing or trading</td>
<td></td>
</tr>
<tr>
<td>Immovable assets, equipment and appliances, with their accessories and tools</td>
<td></td>
</tr>
<tr>
<td>Intangible assets, in so far as their separate disclosure is not called for under some other classification</td>
<td></td>
</tr>
<tr>
<td>Balance of revenues becoming due in future years</td>
<td></td>
</tr>
<tr>
<td>Costs and losses that are brought forward to the next financial year</td>
<td></td>
</tr>
<tr>
<td>Subscribed capital unpaid</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.73.

Soon after its initial submission, the bill was amended to clarify that the government wanted, when it submitted its original bill, life insurance companies to continue reporting under the models of the life insurance business act, described later in this chapter as part of the Dutch prudential reporting developments. Under this act, life insurers were already required, from 1925 onwards, to publish extensive financial statements, so additional regulations were deemed unnecessary. This meant, in my view, that non-life insurance companies, which were not (yet) subject to prudential supervision, were in the scope of the act. However, the parliamentary documents and debate made no references to these companies at all. To avoid all confusion, the Insurance Chamber noted in its 1934 annual report that this provision meant that the only official balance sheet and profit and loss account of a life insurer were the ones that were submitted in the prudential returns, and that it was legally not allowed to have the shareholders approve any other formats. 211 Stated differently, life insurers were legally required to adopt a single-track reporting approach, with the prudential returns designated and published as the official financial statements. Since there were no requirements to disclose additional information or apply prudential filters, it was a type 1 approach. This situation continued until the adoption of the companies’ annual accounts act.

The contents of the revised bill raised virtually no discussions in the Second Chamber, which adopted the bill mid-May 1929. 212 Adoption by the First Chamber occurred one month later. 213 The amendments were published some days after, to become effective immediately. 214 Shortly after, it was clarified that ‘listed’ referred to a listing at the Amsterdam Stock Exchange. 215 However, it became clear already very soon that these new requirements introduced only limited improvements to existing reporting practices. H. Munnik, a prominent member of the NIVA, noted in 1931 that the mandatory notes to the balance sheet included general statements only, and that practice showed that there was, in general, no interest in complying with the requirements. 216 Zeff et al. noted that non-compliance with the provisions of the commercial code continued subsequently. 217 A 1936 survey showed that 25-33% of the companies which should have filed their annual accounts at the trade register had failed to do so.

---

211 Verzekeringskamer (A1934).
212 Tweede Kamer (1929b), Handelingen 15 mei 1929.
213 Eerste Kamer (1929), Handelingen 21 juni 1929.
214 Minister van Justitie (1929c), Staatsblad 1929, nr. 363.
215 Minister van Justitie (1929e), Staatsblad 1929, nr. 408.
216 Munnik (1931).
Furthermore, Zeff et al. reported that, in the 1930s, Dutch financial statements were very condensed, showing as little as possible.\textsuperscript{218} The number of notes was very small, the use of secret or undisclosed reserves was said to be widespread, and comparative figures were generally not provided. The last issue was still the case for a large number of companies in the 1940s.\textsuperscript{219} And also in the 1950s, the financial statements were still assessed by critics as “meaningless”, “a puzzle”, “too little information”, and “hardly to be taken seriously”.\textsuperscript{220}

5.3.4.2.3 The adoption of a new civil code

The next important legislative development in the Netherlands, with an impact on financial reporting, concerned the complete revision of the Dutch civil code.

This started near the end of 1952 with the submission by the government of a memorandum to the Second Chamber.\textsuperscript{221} It noted that the existing code originated from 1838, and had not been fundamentally changed since. For this reason, the government had asked E.M. Meijers, a Leiden professor in civil law, to develop a completely new civil code, which would incorporate, among others, the existing commercial code. Meijers, who had started his work in 1947, submitted his final report (including a draft bill accompanied by a draft explanatory memorandum) in 1954.\textsuperscript{222} Based on this report, a bill for book 2, including the applicable legislation to all legal entities, of the new civil code was submitted to the Second Chamber in November 1954.\textsuperscript{223} It included mutual insurance companies in its scope, but made no references to insurers in the legal form of a joint stock company.

But the bill for a new civil code also proposed one important change in respect of the financial reporting requirements for joint stock companies: the mandatory list of assets, introduced in 1929 after the lengthy debate with Parliament, was dropped and replaced by the possibility to give regulations about the contents of the balance sheet and the profit and loss account by an Administrative Decree. This was explained in the draft memorandum prepared by Meijers, who noted that the existing provisions in the 1929 commercial code had proven to be completely insufficient on numerous occasions. The introduction of an Administrative Decree would enable the government to introduce more severe requirements, but also to adjust more quickly to new developments. Furthermore, this instrument included sufficient flexibility to vary the requirements in accordance with the activities of the joint stock companies.\textsuperscript{224} The other provisions regarding the financial reporting requirements did not change and the appointment of an auditor was still optional.

The parliamentary discussions showed support for the inclusion of mutual insurance companies, partly based on the fact that there were no objections raised from these companies themselves or any others. There was also a general agreement with the proposed changes in the area of financial reporting requirements for joint stock companies. Without any further discussions on these two topics, the act was adopted by the Second Chamber in July 1958.\textsuperscript{225}

\textsuperscript{218} Ibid, p. 67-68.
\textsuperscript{219} Ibid, p. 78.
\textsuperscript{220} Ibid, p. 86.
\textsuperscript{221} Tweede Kamer (1952), nr. 2846.
\textsuperscript{222} Commissie Meijers (1954).
\textsuperscript{223} Tweede Kamer (1954), nr. 3769.
\textsuperscript{224} Commissie Meijers (1954), eerste gedeelte (boek 1-4), toelichting, p. 150.
\textsuperscript{225} Tweede Kamer (1958), Handelingen 8 juli 1958.
In these areas, there was no debate in the First Chamber either, and the bill was adopted in May 1960. The act on book 2 of the new civil code was published one month later. However, the transition provisions determined that its effective date would be settled by law at a later stage. As is described in the next chapter, this date would be 26 July 1976, i.e. over 15 years after the adoption of the legislation.

5.3.4.2.4 Private initiatives to improve the financial reporting practices

To address the concerns on the inadequate provisions in the commercial code, identified by Meijers, the 1950s and 1960s witnessed a number of private initiatives to improve the financial reporting practices. However, none of these focused on insurance companies. In fact, they were not even mentioned in any of the reports described hereafter, and seem to have been completely ignored. Apart from one initiative by an investors’ organisation, none focused on specific user groups; instead, the focus was on the interest of the public at large.

The establishment of the ‘Henri Sijthoff award’

The first initiative was taken, in 1954, by H.A.H. Sijthoff, the owner of Het Financieele Dagblad. This was the leading financial daily journal at the time. He established a committee, comprised of the chairmen of the three Dutch stock exchanges, to determine on an annual basis the best set of financial statements, to be granted the ‘Henri Sijthoff award’, named after his father. The objective was to stimulate further improvements in the publicity of financial information.

According to Louwrier et al., the initiative was inspired by a similar award, annually granted by the US magazine Financial World.

The overarching norm for the Dutch award was that the financial statements should provide insight into the capitalisation, the financial position, the liquidity, and the earnings-capacity of the reporting company. It was complemented by more detailed requirements, which were published in 1956 and focused on the reporting date, consolidation, comparative amounts, and a number of specific disclosures. The norms were revised in 1969, to include the totality of financial reporting practices of listed companies, not just the financial statements. The norms were subsequently updated to align with national and international financial reporting developments. This occurred in 1974, in 1983, in 1995, in 2003, and in 2002. Although, as is described in chapter 3, several companies reviewed in this dissertation were listed, the only company winning the award was the AMEV, in 1967. For this reason, the developments in respect of the norms after 1969 are not described.

---

227 Minister van Justitie (1960), Staatsblad 1960, nr. 205.
228 See section 6.4.2.1.
229 FD (1956).
230 Louwrier et al. (1997).
231 FD (1956).
236 FD (2002).
The report of the ‘Rijkens committee’

The next step occurred in March 1955, when the group of four Dutch employers organisations published a report, prepared by its committee on annual reporting chaired by P. Rijkens, chairman of the Unilever. The committee, composed, in the main, by business men but also including two auditors (one of them being Kraayenhof). It noted that, in the last decades, the number of joint stock companies had increased considerably, and that a growing number of them applied for a listing at the stock exchange. For this reason, the importance of financial reporting had increased, as had the number of interested parties (including the public in general). Compared to the existing requirements in the commercial code, improvements were needed, in particular for public companies, and were already made in practice.

To further stimulate these developments, the committee drafted a number of recommendations, including two illustrative models for the balance sheet and one for the profit and loss account. Since these models focused on industrial companies, they are not included in this dissertation.

The main principle underlying the committee proposals was that the annual accounts should present a “getrouw beeld” (faithful picture), which was the case if the following information was included:

- A specification of the result, which enabled the user to “inzicht verkrijgen in” (gain insight into) its composition and the “rentabiliteit” (profitability) of the invested capital;
- A specification of the assets and the liabilities, enabling the user to gain insight into the solvency and liquidity position of the company;
- A description of the accounting policies for the calculation of the result and the valuation of the assets and the liabilities; and
- A disclosure of the changes in the accounting policies and/or the figures, if possible with a description of the impact of these changes.

This principle was almost completely identical to that introduced in 1954 by P.F.S. Otten, the managing director of the Philips. In his view, the financial statements should present an “aanvaardbaar beeld” (acceptable picture) of the financial position and the results, and secret reserves should be allowed only to the extent that this view was not distorted. He was also the first to introduce the term ‘insight’ in the Dutch discussions on financial reporting requirements. Whether or not Otten had in mind the UK developments in respect of the introduction of a “true and fair view” in 1947, described earlier in this chapter, is unknown. But given the timing of the UK and Dutch developments, it is in my view clear that such a relationship existed.

The more detailed recommendations of the Rijkens committee focused on a wide variety of topics. These included secret and undisclosed reserves, the distinction between reserves and provisions and their composition, tax accounting, pension accounting, comparative figures, consolidation, revenues, and the proposed appropriation of profits.

---

238 Werkgevers (1955).
239 Zeff et al. (1992), p. 90.
The report of the ‘Wiardi Beckman Foundation’
Another report addressing financial reporting developments was issued, in 1959, by the ‘Wiardi Beckman Stichting’ (henceforth, the ‘Wiardi Beckman Foundation’), the ‘think tank’ of the Dutch labour party.\textsuperscript{241} It welcomed the recommendations of the Rijkens committee, but observed that these were only followed by a limited number of companies. In particular the continued use of secret and undisclosed reserves and the absence of revenue figures obscured the necessary insight into the financial position and performance of the reporting companies, while experience in the US showed that the arguments of competitive disadvantage, often used by companies, were generally invalid. Finally, the committee proposed the establishment of a ‘Vennootschapskamer’ (henceforth, a ‘Companies’ Chamber’) to supervise compliance with the revised publication requirements, both in the annual accounts and in prospectuses in a way that was, as much as possible, comparable to that of the US SEC.

The report of the ‘Hamburger committee’
In July 1962, the employers’ organisations issued an update of its 1955 report of the Rijkens committee.\textsuperscript{242} The new report was prepared by a committee chaired by J.A. Hamburger, a businessman. One-third of the members of this committee were also members of the Rijkens committee, including Kraayenhof. However, in the Hamburger committee, businessmen only formed a small majority. The report maintained most of the Rijkens committee’s conclusions and recommendations, including the illustrative models for the balance sheet and the profit and loss account for industrial companies. In addition, the report included new suggestions on non-ordinary results, accounting policies, proportional consolidation, the measurement of subsidiaries, and deferred tax. The committee did not support the provision in the new civil code that the government could issue financial reporting requirements under an Administrative Decree. Instead, it advocated that such a topic should be regulated by an official act, which should be kept at a rather high level, with the most important provision that the financial statements should present a true and fair view.

Zeff et al. noted that the committee was formed at the time that the government had already appointed the ‘Verdam committee’, described hereafter, to develop recommendations for the revision of company law.\textsuperscript{243} The authors quoted Hamburger, stating that the objective of the employers’ federation was to “try to influence as much as possible the political outcome and the political thinking at a very early stage”.

The report of the ‘Telder Foundation’
Also in 1962, the ‘Telderstichting’ (henceforth, the ‘Telder Foundation’), which was the ‘think tank’ of the Dutch liberal party, issued a report on financial reporting requirements.\textsuperscript{244} It largely supported the recommendations of the Hamburger committee, but was more specific in several areas, for instance in proposing certain items to be separately included in the balance sheet or the profit and loss account, and for definitions in respect of participations and majority shareholdings.

\textsuperscript{241} Wiardi Beckman Stichting (1959).
\textsuperscript{242} Werkgevers (1962).
\textsuperscript{243} Zeff et al. (1992), p. 127.
\textsuperscript{244} Telderstichting (1962).
At the same time, the Telder Foundation advocated more freedom in accounting policy choices, in particular for banks, which should – in line with UK legislation, described earlier when presenting the UK financial reporting developments – be exempted from disclosing certain policies.

**The report of the ‘Society for Investor protection’**

A final private report on company law reform was issued by the ‘Vereniging Effectenbescherming’ (henceforth, the ‘Society for Investor protection’) in March 1963.245 As far as I am aware, this was one of the first reports on accounting topics issued by an investors’ organisation. The recommendations were largely aligned with those included in the report of the Telder Foundation, but showed disagreement in respect of the accounting policies: the society disliked the use of secret and undisclosed reserves, and supported accounting policies based on sound business practice. An annex to the report included a list of items to be presented in the balance sheet and the profit and loss account, where the latter should include the revenues and the cost of sales.

When I overlook these private initiatives (which, as noted, included no reference at all to insurers), I find the fact that it were the preparers which took the lead in improving the financial statements the most remarkable event. One possible explanation could be the international expansion and the listings of several Dutch companies on the NYSE in the 1950s and the early 1960s. Zeff et al. noted that this concerned the Philips (in 1953), the ‘A.K.U.’ and the ‘Royal Dutch Petroleum’ (in 1954), the ‘KLM Royal Dutch Airlines’ (in 1957), and the Unilever (in 1961).246 Under this influence, these companies started to adopt certain US policies in their financial statements, such as the disclosure of the revenues, cost of sales, and consolidated accounts, but also, in more general terms, became much more aware of the importance of providing financial information to the public at large and not just to shareholders.

5.3.4.2.5 The activities of the ‘Verdam committee’ of 1960

Soon after the adoption of the new civil code in May 1960, the government took another step to revise company law. This concerned, in June 1960, the installation of an advisory committee, chaired by P.J. Verdam, an Amsterdam professor in law.247 The committee was assigned to study three areas of possible improvements of company law: the functioning of the existing institutions (including the financial reporting requirements), the organisation structure of companies, and their legal structure. For the financial reporting requirements, it created a separate subcommittee, which included Kraayenhof again as a member.

The committee issued its report in November 1964.248 Regarding the topic of financial reporting, the report included a draft bill on a companies’ annual accounts act and an explanatory memorandum to this draft. In its recommendations, the committee made a clear distinction between the requirements to prepare the annual accounts and those to publish these accounts. Regarding the publication requirements, the committee proposed to retain the scope of the 1929 commercial code (including its focus on the user groups, mentioned earlier in this section).

---

245 VEB (1963).
246 Zeff et al. (1992), p. 91-93.
247 Naamlooze Vennootschap (1960).
248 Commissie Verdam (1965).
However, the committee also recommended including the requirement that the companies within the scope of the 1929 commercial code should publish their full financial statements, and not just the balance sheet. Furthermore, the committee proposed to introduce the requirement that these companies had to appoint an auditor.

But the main focus of the report was on the preparation of the financial statements. Building on the private initiatives described earlier, the committee proposed the establishment of a separate act and rejected the provision of the new civil code, under which the requirements would be included in an Administrative Decree. Given the diversity in the legislation in other countries, in particular in respect of the level of detail, and the desire to leave sufficient room for future developments, the committee recommended the adoption of a few general principles, accompanied by a number of detailed requirements to meet them. The general principles were:

- “The financial statements shall give, in accordance with the requirements of this law, an insight such that a well-founded opinion (‘verantwoord oordeel’) can be formed concerning the financial position (‘vermogen’) and return on invested capital (‘rentabiliteit’) of the enterprise, as well as concerning the solvency and liquidity”;
- “The balance sheet, with the notes thereto, shall present faithfully (‘getrouw’) and consistently (‘stelselmatig’) the amount and composition of the financial position (‘vermogen’) of the enterprise at the end of the year. The profit and loss statement, with the notes thereto, shall present faithfully and consistently the amount and composition of the net income (‘resultaat’) of the enterprise during the financial year”; and
- “The policies used in valuing the assets and liabilities shall satisfy norms that are considered to be acceptable in the economic and social climate (‘normen die in het maatschappelijk verkeer als aanvaardbaar worden beschouwd’). A change in valuation policies, if material (‘van wezenlijk belang’), shall be shown explicitly, together with the impact of the change on net income and financial position. The notes to the balance sheet shall give an explanation (‘uiteenzetting’) of the valuation policies.”

According to Zeff et al., the first two general principles were based on the recommendations of the Rijakens and Hamburger committees and written by Kraayenhof, who, as is noted before, had been a member of both committees. Kraayenhof had also suggested the term “acceptable in the economic and social climate”.

Regarding the valuation policies, the committee noted that it rejected secret and undisclosed reserves. In its view, the policies permitted a conservative, but not a “scheve” (biased) choice. Therefore, the movements in the reserves had to be disclosed if this was necessary for a faithful presentation of the financial position and of the net income.

The general principles of the bill were supported by a number of detailed requirements regarding the composition of the balance sheet and the profit and loss account, specifying the items that should be disclosed either on the face of the statements, or in the notes.

The models are presented below.

---

249 The following English translations are copied from Zeff et al. (1992), p. 152-153.
250 Zeff et al. (1992), p. 150.
<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td></td>
</tr>
<tr>
<td>Land and buildings</td>
<td></td>
</tr>
<tr>
<td>Machinery and installations</td>
<td></td>
</tr>
<tr>
<td>Fixed assets not involved in the production process</td>
<td></td>
</tr>
<tr>
<td>Immaterial assets</td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td></td>
</tr>
<tr>
<td>Patents</td>
<td></td>
</tr>
<tr>
<td>Licences</td>
<td></td>
</tr>
<tr>
<td>Copy rights</td>
<td></td>
</tr>
<tr>
<td>Concessions</td>
<td></td>
</tr>
<tr>
<td>Preparation and starting-up expenses</td>
<td></td>
</tr>
<tr>
<td>Participating interests</td>
<td></td>
</tr>
<tr>
<td>Receivables on participating interests</td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td></td>
</tr>
<tr>
<td>Raw materials</td>
<td></td>
</tr>
<tr>
<td>Auxiliary materials</td>
<td></td>
</tr>
<tr>
<td>Semi-finished products</td>
<td></td>
</tr>
<tr>
<td>Work in progress</td>
<td></td>
</tr>
<tr>
<td>Finished products</td>
<td></td>
</tr>
<tr>
<td>Trading stock</td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td></td>
</tr>
<tr>
<td>Instalment debtors</td>
<td></td>
</tr>
<tr>
<td>Loans guaranteed by mortgages</td>
<td></td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td></td>
</tr>
<tr>
<td>Discounted bills of exchange</td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Cash, and bank and giro balances</td>
<td></td>
</tr>
<tr>
<td>Securities listed at an approved Dutch or foreign stock exchange, in so far as they are not participating interests</td>
<td></td>
</tr>
<tr>
<td>Other securities, in so far as they are not participating interests</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
</tr>
<tr>
<td>Issued capital</td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td></td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td></td>
</tr>
<tr>
<td>Mortgage bonds</td>
<td></td>
</tr>
<tr>
<td>Debts to participating interests</td>
<td></td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td></td>
</tr>
<tr>
<td>Provisions related to assets</td>
<td></td>
</tr>
<tr>
<td>Provisions for deferred tax</td>
<td></td>
</tr>
<tr>
<td>Provisions for pensions</td>
<td></td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td></td>
</tr>
<tr>
<td>Bank credits</td>
<td></td>
</tr>
<tr>
<td>Trade creditors</td>
<td></td>
</tr>
<tr>
<td>Tax liabilities</td>
<td></td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.78.
Table 5.3: Verdam committee of 1964 – profit and loss account items

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information regarding the size of the business</td>
<td></td>
</tr>
<tr>
<td>Depreciation on fixed assets</td>
<td></td>
</tr>
<tr>
<td>Income from participating interests</td>
<td></td>
</tr>
<tr>
<td>Income from investments</td>
<td></td>
</tr>
<tr>
<td>Tax charges</td>
<td></td>
</tr>
<tr>
<td>Extraordinary income and charges</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.79.

If the reporting company held a participating interest of more than 50%, it should provide all information required by the companies’ annual accounts act for these interests, which could be done in the form of separate or combined financial statements of all such interests, or in the form of consolidated accounts.\(^{253}\) The detailed requirements also included the identification of a separate balance sheet line for the provisions for certain risks and uncertainties. However, the banks were still allowed to include their provision for general banking risks (i.e. risks not directly linked to specific assets or past events) under other balance sheet items, although the movements in this provision should be disclosed. Regarding the revenues, the Verdam committee proposed that the information should be presented in accordance with the usual measures of the relevant industry, either in absolute numbers or in figures which were proportionate to those of the previous financial year. In contrast to the legislative developments and private initiatives described before, the committee’s proposals did refer to insurance companies: they were exempted from the proposed requirements, if these were met by the inclusion of the appropriate data in the prudential returns prepared under the respective insurance business acts, described later in this chapter as part of the section on the Dutch prudential reporting developments. Prudential filters were not mentioned. In other words, the committee endorsed a type 3 single-track reporting approach.

To enhance compliance with the provisions of the act, the committee proposed the establishment of an ‘Ondernemingskamer’ (henceforth, an ‘Enterprise Chamber’), a specialised court in Amsterdam, where each interested party (i.e. each party that had an interest, not just an investor) could file a complaint on the financial statements of a company which was in the scope of the companies’ annual accounts act.

Comparing the report of the Verdam committee to the reports prepared by the private sector, Zeff et al. provided the following comments:\(^{254}\)

- The distinction between the preparation and the publication of the financial statements was in line with the proposals of the Hamburger committee, although the scope of the publication requirements differed;
- The general principle of ‘faithful presentation’ was based on the suggestions of the Rijkens committee, while the principle of ‘insight’ could be traced back to the Rijkens committee, the Henri Sijthoff award, and the Hamburger committee;
- The general valuation policy was aligned with the recommendations of the Wiardi Beckman foundation and the Telder foundation;

---


\(^{254}\) Zeff et al. (1992), p. 151-156.
• The Rijkens and Hamburger committees’ proposals regarding the consolidated accounts were not followed: the form in which the information regarding majority shareholdings was presented was left to the preparers; and
• Although the recommendation from these two committees regarding the revenues was adopted, this did not apply to the proposed disclosure of the ‘cost of sales’: the issue was not mentioned by the Verdam committee. The same applied to the proposals in respect of deferred tax, and to the presentation of comparative amounts.

The report of the committee was widely discussed in the professional literature. Part of the debate focused on the differences between ‘sound business practice’ and ‘norms that are considered to be acceptable in the economic and social climate’. In particular, a number of auditors would have preferred a reference to ‘business-economic principles’ to determine the valuation policies. Another part dealt with the inclusion of the detailed requirements supporting the general principles, an approach which was rejected by most auditors. But overall there was support for the general principles recommended by the committee as the future basis for legislation regarding the financial statements.

The report of the Verdam committee was, as was usual in these cases, also discussed by the ‘Sociaal-Economische Raad’ (the ‘Social and Economic Council’, henceforth, the ‘SER’). This council was one of the major advisory committees to the Dutch government in social-economic affairs. In its report, submitted in May 1966 and supplemented in September of the same year, the SER supported the proposal to regulate the financial statements in a separate act and, generally, the approach adopted by the committee. However, in some areas it recommended changes:

• Regarding the purpose of the financial statements, the SER pointed at the inherent limitations of this document to fully understand the financial position, the return on invested capital, the solvency and liquidity of the company, and suggested to add that this was based on the “aard” (nature) of the annual accounts. Furthermore, since this understanding was, under normal conditions, only possible by looking at more than one financial year, the SER recommended the mandatory inclusion of the comparative figures for the previous year; and
• The SER suggested some additional mandatory lines in the profit and loss account, the proposal for which was, in its view, too restrictive.

The recommendations of the SER were, generally, supported by the NIVA and the VAGA, the two main Dutch auditors’ organisations. In addition to this, they suggested clarifying that the general valuation policy not only applied to the assets and the liabilities, but also to the determination of the net result, giving more room to the implementation of business-economic principles. Furthermore, they proposed a number of changes in the terminology.

---

255 For an overview of these comments, see Zeff et al. (1992), p. 160-165.
256 SER (1966).
258 It should be noted that, at the time, there was a trend in the Netherlands to apply a system of replacement values or current-cost accounting in the annual accounts, which could have an impact on the determination of results, but not always on the measurement of assets.
5.3.4.2.6  The development of the companies’ annual accounts act

The next step occurred in May 1968, when the government submitted a bill for a companies’ annual accounts act to the Second Chamber.\(^{259}\) The explanatory memorandum noted that the bill was, to a very large extent, based on the report of the Verdam committee and the recommendations received from a number of parties, including the SER and the NIVA/VAGA. In the preparation of the bill, several external experts, including Kraayenhof, had been asked to assist. This assistance included studying the latest developments in other continental European countries such as Belgium, France, Germany, and Italy. But also the UK 1967 companies act, described earlier as part of the UK financial reporting developments, was included.

The bill followed the structure of the draft included in the report of the Verdam committee, making a distinction between general principles and accompanying, more detailed, requirements. Compared to the draft, the following changes were made in the general principles:

- The term ‘return on invested capital’ was replaced by ‘net income’, and, regarding the insight in the solvency and liquidity of the company, the limitation in respect of the nature of the financial statements, as suggested by the SER, was included;
- It was clarified that the more detailed requirements should be considered as a minimum, and that additional information should be presented if this was necessary to meet the general principles;
- Comparative information was not required, despite the requests from a number of commentators, since, according to the explanatory memorandum, this would be insufficient for an appropriate comparison between years. According to the government, it would always be necessary to go back to the full previous accounts anyway;
- The bill fully endorsed the general valuation policy, and – as had been suggested – expanded this principle to the determination of the net income. The reason to reject the sound business practice approach was that this often resulted in the creation of secret and undisclosed reserves (which was disapproved of), but also because the term had, in practice, developed itself in particular for application in the tax returns. As such, it was not suitable anymore as a basis for the preparation of the financial statements;
- The profit and loss account should include the operating profit, the other income and charges, the profit before tax, and the estimated tax charge, all split in accordance with acceptable industry standards; and
- The suggestions for some additional mandatory lines in the profit and loss account were accepted.

For insurance companies, the bill proposed that the prudential returns could (i.e. were allowed, but not required to) be designated and published as the financial statements, if, and only if, these returns met the requirements of the companies’ annual accounts act (i.e. by including, if necessary, additional information). However, if these requirements were not met, separate financial statements had to be prepared. Since there was no reference to prudential filters, this was a type 3 single-track reporting approach.

---

\(^{259}\) Tweede Kamer (1968), nr. 9595.
Regarding the practical application of the general valuation policies, the government expected the business community, jointly with the auditors’ organisations, to take stock of the accounting policies applied in practice, and to assess whether or not they met the requirements in the act.\textsuperscript{260} The results of this work should be published to support the companies and to serve as an orientation for the Enterprise Chamber in case of disputes. As is described in the next chapter, this call was met by the establishment of the ‘Tripartite Overleg’ (henceforth, the ‘Tripartite Study Group’ or ‘TO’) in 1970.\textsuperscript{261}

In respect of the publication requirements, the explanatory memorandum noted the diversity in views on several levels, including the Verdam committee and the SER: while some held the view that the existing requirements in the commercial code should be widened, others found them adequate and were against the introduction of changes. On this topic, the government referred to the ongoing developments at the level of the EEC, in particular the recent adoption of the first directive, described earlier in this chapter when presenting the activities of the European Commission. According to this directive, all joint stock companies should publish their financial statements. This requirement was, however, not applicable to private joint stock companies, a legal form which did not exist yet in Dutch legislation, but, in its intentions, was comparable to the private companies presently identified in the commercial code. To maintain the existing distinction between private and public joint stock companies in respect of their publication requirements, preparations for the implementation of the first directive had started, and a bill would be submitted to Parliament shortly.\textsuperscript{262} In this debate on publication requirements, insurance companies were not mentioned at all since they were already subject to extensive publication requirements, as is described later in this chapter when presenting the Dutch prudential reporting developments.

In its discussions on the bill, Parliament expressed general support for the bill, although it noted that there was an urgent need to implement the private joint stock company in Dutch legislation, to avoid the unwarranted publication of the financial statements by these companies. Furthermore, in a debate on the introduction of mandatory models of the financial statements and the disclosures of revenues (both ideas were ultimately rejected), reference was made to the ongoing developments in respect of an EEC directive on the annual accounts.\textsuperscript{263} The same applied to initiatives at this level for a directive regarding prospectuses.\textsuperscript{264} In two other areas, the government accepted the suggestions from the Second Chamber, regarding the mandatory inclusion of the comparative figures and the introduction of the materiality concept in the breakdowns of the balance sheet and of the profit and loss account. Regarding insurance companies, the government made it clear that the prudential returns were considered as the primary reporting basis and that separate, additional financial statements were not necessary if these returns included all data required by the companies’ annual accounts act. The preparation of separate financial statements was, however, always allowed, and even required if not all mandatory data were included.

\textsuperscript{260} According to Zeff et al., this suggestion could also be traced back to Kraayenhof (see Zeff et al. (1992), p. 175). They based this information on an interview with the former secretary of the Verdam committee and referred to a speech of Kraayenhof at the first members’ meeting of the NIVRA in April 1967.

\textsuperscript{261} See section 6.4.3.1.

\textsuperscript{262} The implementation of the first EEC directive is discussed in the next chapter, see section 6.4.2.1.

\textsuperscript{263} These developments are described in the next chapter, see section 6.4.2.2.

\textsuperscript{264} See section 6.4.5.2.
The debate in Parliament was attended by Kraayenhof as a special advisor to the Minister of Justice. The Second Chamber adopted the revised bill on 14 April 1970.\textsuperscript{265} Without much debate, the First Chamber followed on 8 September 1970.\textsuperscript{266} The act was published in the same month.\textsuperscript{267} It was effective as of 1 May 1971.\textsuperscript{268} As a consequence, the act was applicable for the first time for the financial statements over the year 1971, the impact of which is described in the next chapter.\textsuperscript{269}

Compared to the developments in the UK and the US, the adoption of the companies’ annual accounts act can, in my view, be characterised as a first step to catch-up the legislative backlog: the UK principle of ‘true and fair view’, comparable to the Dutch ‘faithfully present’, had already been introduced in the late 1940s, and the US approach of ‘fair presentation’ in the 1950s. The backlog in respect of private accounting standard setting activities was, however, enormous, as this still had to start in the Netherlands, while it commenced in the late 1930s in the other two countries.

5.3.4.3 The role of the auditing profession and the stock exchange

5.3.4.3.1 The role of the auditing profession

During the period reviewed in this chapter, the Dutch auditing profession experienced a number of important developments. This started in the 1920s, when the need to establish a common educational platform, with one level of examination at the end, resulted in more and more cooperation between the larger professional auditing organisations and a merger of the NIVA and two other groups in 1934. However, the VAGA stayed outside this merger and only joined in response to the ‘Wet op de registeraccountants’ (the ‘Registered auditors act’), adopted in 1962, when it, together with the Broederschap, the NIVA, and the Unie formed in 1967 the ‘Nederlands Instituut van Registeraccountants’ (the ‘Dutch Institute of Registered auditors’), henceforth, the ‘NIVRA’.\textsuperscript{270}

To organise and support its activities in respect of the financial reporting requirements, the NIVA created, at the end of the 1940s, two technical committees.\textsuperscript{271} One of these was the ‘Commissie van Advies inzake Beroepsaangelegenheden’ (the ‘Advisory Committee on Professional matters’), henceforth, the ‘CAB’. In 1968, it was split into several committees, including the ‘Commissie van Advies inzake Jaarverslaggeving’ (the ‘Advisory Committee on Annual reporting’), henceforth, the ‘CAJ’. It was especially this committee that would play a major role in the developments of financial reporting requirements through the TO, as is described in the next chapter.\textsuperscript{272}

In 1962, the CAB issued two important documents to stimulate the debate on financial reporting issues among the members of the NIVA. They were not issued by the Board of the institute and, therefore, did not constitute a binding opinion.

\textsuperscript{265} Tweede Kamer (1970a), Handelingen 14 april 1970.
\textsuperscript{266} Eerste Kamer (1970), Handelingen 8 september 1970.
\textsuperscript{267} Minister van Justitie (1970a), Staatsblad 1970, nr. 414.
\textsuperscript{268} Minister van Justitie (1970b), Staatsblad 1970, nr. 533.
\textsuperscript{269} See section 6.4.2.1.
\textsuperscript{270} de Hen et al. (1995), p. 108.
\textsuperscript{271} Ibid, p. 15-17.
\textsuperscript{272} See section 6.4.3.1.
The first publication appeared in May 1962 on the topic of secret and undisclosed reserves.\textsuperscript{273} The report noted that the issue had been the subject of an ongoing debate, within and outside the Netherlands, already for a long time, and that the views held by the involved parties differed widely. In line with the views presented by the Rijkens committee, the committee considered secret and undisclosed reserves no longer acceptable, if this resulted in relatively important understatements of the equity and the results of the reporting company. Furthermore, the committee considered the use of such reserves in conflict with the system of sound business practice.\textsuperscript{274} Although a review of the literature showed some debate about the recommendations of the CAB, in general there seemed to be, at the time, wide support for the prohibition of secret and undisclosed reserves within the auditing profession.\textsuperscript{275}

A second publication by the CAB was issued in September 1962.\textsuperscript{276} It dealt with deferred tax in the annual accounts of joint stock companies. The study noted that the tax authorities held a future claim on the companies in respect of their transition reserves, formed at the introduction of the acts and decrees on the profit tax and the corporate tax and their subsequent amendments, as is described in the beginning of this chapter. In the committee’s view, this should result in the establishment of deferred tax liabilities, since any release from these reserves would increase taxable profits, without a specific relation with the normal profits for the financial year. All claims of the tax authorities on profits which were temporarily tax-exempt should be recognised. The recognition of deferred tax on items which were directly reported in equity was also recommended to avoid any overstatement of equity. In addition, the reporting company should establish a deferred tax asset if it held a future claim against the tax authorities. However, prudence required that this should occur only if it could be reasonably assumed that such a claim would be realised. Tax charges should be part of the profit determination, not of the profit appropriation, and the separate presentation of deferred tax in the balance sheet was recommended. The committee abstained from presenting a view on discounting of deferred tax items in the balance sheet. Compared to the reactions in the auditing professions on the first CAB-report, this second report triggered much more response. A debate between a number of auditors on the report showed that not all supported the proposals.\textsuperscript{277} On the other hand, the discussion revealed that, according to the CAB, a deferred tax liability was also required for the equalisation reserve established by insurance companies.

5.3.4.3.2 The role of the stock exchange

The requirements in 1923 to obtain an official listing at the Amsterdam Stock Exchange included the submission of a prospectus, and the publication of a balance sheet, a profit and loss account, and the management report.\textsuperscript{278} However, the publication requirements were only applicable to new listings, i.e. they were not applicable to companies already listed, until the moment they issued new securities.

\textsuperscript{273} CAB (1962a).
\textsuperscript{274} This reference to ‘sound business practice’ was a confirmation of the accounting classifications described by Mueller and Nobes in section 2.2.2.
\textsuperscript{275} De Accountant (1963).
\textsuperscript{276} CAB (1962b).
\textsuperscript{277} De Accountant (1963).
\textsuperscript{278} van der Meulen (1923).
In 1947, the position of the Stock Exchange Association was enforced by a decision of the Minister of Finance, which stated that the purchase and sale of securities was allowed only through the members of this association. Based on this strengthened position, the association decided to become more active in the area of financial reporting, and issued, in the beginning of 1949, a circular encouraging listed companies to improve their financial statements in the interest of investors. Camfferman described that this resulted in an increase of the disclosure of comparative amounts by listed companies, measured as a percentage of the total number of companies in his sample, from about 10% in 1950 to around 90% in 1955 and to full compliance in 1960. In 1958, the association took a further step, requiring companies to publish both consolidated and separate financial statements, unless a waiver was granted. At that time, it also introduced the requirement that the annual accounts should give a “getrouw beeld” (faithful picture). However, it consistently abstained from providing any guidance or requirements in respect of the contents of the accounts. This was still the case at the end of the period reviewed in this chapter.

5.3.4.4 Comments and debate on the reporting developments in practice
The discussions on the actual reporting practices of Dutch companies focused mainly on three issues:

- The annual accounts of holding companies;
- The secret and undisclosed reserves; and
- The uniformity of layouts.

5.3.4.4.1 The annual accounts of holding companies
The financial reporting practices of Dutch holding companies were first discussed by Nijst in 1924. He referred to the increasing distrust in the annual accounts of these companies by investors and in the financial press, because of the lack of information on the results of the subsidiaries. In his view, this should be addressed by the publication of the balance sheets of these subsidiaries in the form of a combined statement of the group, provided that only 100% interests were included. In other cases, subsidiaries should be measured at the stock exchange value or the lower intrinsic value.

In 1926, the lawyer D.J. Sannes discussed in his dissertation the need to prepare consolidated financial statements. He noted that the financial position of a holding company was largely dependent on the results of its subsidiaries, but that the information provided to the shareholders did not enable them to exercise appropriate oversight, because they did not see the assets, the liabilities, the income, and the expenses of these subsidiaries. To address this shortcoming, he proposed that holding companies should prepare consolidated statements, next to their own balance sheet and profit and loss account.

---

279 Minister van Financiën (1947), Staatsblad 1947, nr. H 105.
280 Zeff et al. (1992), p. 79-80.
281 Louwrier et al. (1997).
283 Nijst (1924).
284 Sannes (1926).
On this point, Sannes referred to the US where this was already happening for a long time. In preparing such consolidated financial statements, the classification and the valuation of the items should be harmonised. In the non-consolidated balance sheet, subsidiaries should be reported at their intrinsic value, but not higher than cost or the stock exchange quotation.

The issue of the annual accounts of holding companies came back in 1933, when the auditor L. Polak delivered a speech at the annual ‘Accountantsdag’ (the ‘Auditors’ day’) of the NIVA. In his view, any legal requirements for the financial reporting practices of such companies would be difficult to develop, but practice was, at the time, unsatisfactory. In his view, consolidated accounts should be required, combined with separate balance sheets for unconsolidated participations, and a distinction between distributable and non-distributable reserves. Furthermore, the net results of the full subsidiaries should be accounted for in the profit and loss account of the holding company. Finally, the shares in the participations and subsidiaries should be reported at cost or the lower capitalised return value. To defend this position, he referred to the practice in the US, but in particular to the UK and the requirements under the 1929 companies act. For the Netherlands, he referred to the Philips, which had started publishing consolidated accounts in 1931.

For a number of years after 1933, the debate on consolidated accounts came to a halt in the accounting literature, until it appeared again at the end of 1950, when E.A. Hofman, another auditor, delivered a presentation at a study meeting of the NIVA. He referred to some recent announcements by a few large Dutch companies that they had started, or were going to start, preparing consolidated financial statements. Based on a short survey, he observed only a limited number of cases where some form of consolidation was applied, in three different varieties:

- Companies which reported a consolidated balance sheet and a consolidated profit and loss account in conjunction with the non-consolidated statements of the holding companies;
- Companies which reported only a consolidated balance sheet next to the non-consolidated statements of the holding companies, such as the Philips; and
- Companies which produced only a consolidated balance sheet and a consolidated profit and loss account. Examples of this group were a number of mortgage banks, but also the non-life insurance companies Holland van 1859, De Nederlanden van 1845, and Tiel Utrecht.

In Hofman’s view, the Dutch financial reporting requirements and practices were far behind those in the UK and the US.

Subsequently, it took another 14 years before the topic was discussed again in the accounting literature. This concerned an article in *De Accountant*, reporting on the discussions organised by the NIVA in May 1964.

---

285 See section 4.3.2.5.
286 Polak (1933).
287 According to Volmer, consolidated balance sheets were prepared in the Netherlands much earlier: the system was already applied by the Dutch East Indies Company in 1689. See Volmer (2003).
288 Hofman (1950).
289 The first company was later part of Fortis (see section 3.3.2), the other two part of ING (see sections 3.4.2 and 3.4.3, respectively).
290 De Accountant (1964).
According to the participants in the NIVA meeting, it was absolutely necessary to provide information on the results of subsidiaries, with a large majority preferring the preparation of consolidated accounts as the method to achieve this goal. However, views differed on the requirements for such a consolidation (e.g., whether or not the existence of an economic relationship between the parent company and the subsidiary should be a condition), and on the need to introduce legal requirements on the topic. Furthermore, the participants were divided on the question whether goodwill acquired in a business combination should be capitalised and amortised (the majority view), or immediately written off (the minority view). However, if the last approach was adopted, goodwill should be charged to the income statement, not to the reserves.

According to the auditor W. Voors, at the end of the 1960s about half of the companies listed at the Amsterdam Stock Exchange prepared consolidated financial statements, with the number of companies gradually increasing. In the non-consolidated statements, subsidiaries were, already in the early 1930s, generally reported at their intrinsic value. This enabled the companies to report the same amount of equity in the consolidated and the non-consolidated accounts.

5.3.4.4.2 Secret and undisclosed reserves
In 1925, Nijst also contributed to the debate on the secret reserves. In his opinion, the annual accounts should present the financial position at the balance sheet date. Any losses incurred between the balance sheet date and the date of the publication of the financial statements should be covered by the reserves, to be created by the appropriation of profits; such losses should not be reported as a component of the profit and loss account of the closed financial year. Secret reserves should not be established, since such a practice would not reveal the “ware” (true) financial position and results of the company. This view was partially supported by the economist A.B.A. van Ketel shortly after, who concurred with Nijst that any secret reserves should be created as part of the profit appropriation, but supported a policy under which such reserves would be included in the balance sheet, as part of other reserves (e.g., for depreciation), or under creditors or accrued liabilities.

It would take until 1929 before the issue came fully to the surface within the auditing profession. In a meeting of members of the NIVA in April 1929, the auditor C. van Uden delivered a speech on the topic. In his opinion, it was impossible to prepare a balance sheet without secret reserves, since the amounts of the assets and the liabilities were not always certain, and it was part of the human nature to be prudent. Therefore, if such a practice was applied in good faith, he had no problem in signing off such accounts as an auditor. The debate on his lecture showed that there was no unanimous view in the auditing profession at the time: there were strong supporters of secret reserves, but also opponents.

However, overall there seemed to be some level of agreement in the auditing profession on the distinction between the profit determination and the profit appropriation, where a majority felt that the creation of secret reserves, if acceptable at all, should be part of the profit appropriation.

---

291 Voors (1968).
292 Nobes (2002).
293 Nijst (1925).
294 van Ketel (1925).
295 van Uden (1929).
The issue of secret reserves returned in the accounting literature after the Second World War, in particular in a debate between the auditors G.K.H. Hinnen and R.A.D. Dijker. The first argued in February 1948, referring to the developments in the UK financial reporting requirements described earlier in this chapter, that he could not concur with the contents of the revised rules of the NIVA, adopted in February 1947, which stated that the auditors’ opinion confirmed that the annual accounts had been prepared in compliance with sound business practice. He noted that the original proposal had also stated that it was not in conflict with such a practice to create or deplete secret and undisclosed reserves, unless this resulted in misleading information. However, after a debate in the committee preparing the revision, it had been decided to delete this clause, with the explanation that it wanted to take a neutral position on the issue, by not rejecting and also not approving such reserves. In Hinnen’s view, the use of secret and undisclosed reserves should be explicitly rejected. Dijker, on the other hand, held a completely opposite view. He argued that there was nothing wrong with using secret and undisclosed reserves, since this was in the interest of the company, and, therefore, ultimately in the interest of the shareholders.

In these debates on secret and undisclosed reserves, taxation did not play a role, since, as is explained earlier in this chapter when describing the developments in the Dutch taxation for companies, the legislation on income tax did not govern financial reporting in the Netherlands.

For insurers, a rejection of the use of secret or undisclosed reserves could, potentially, be a threat to their type 1 existing single-track reporting approach, if one assumes that reporting to an insurance supervisor always occurs on a more prudent basis than reporting to investors. Whether or not this was the case is described as part of the actual reporting practices of the companies reviewed in this dissertation, presented later in this chapter. But it can already be noted that, apparently, the financial statements of insurers included such disclosures that an experienced user was able to eliminate, to a large extent, the undisclosed reserves in the balance sheet, to assess the ‘true’ financial position of an insurer. In that sense, I conclude that insurers provided sufficient information in their financial statements as a whole to resolve any existing or perceived shortcomings of their type 1 single-track reporting approach during the period reviewed in this chapter. The debate on the secret and undisclosed reserves was, therefore, mostly irrelevant for the insurance industry.

5.3.4.4.3 The debate on uniformity of layouts
The discussions on this topic were revitalised by Munnik in 1931. Referring to the positive experience with the publication by the Dutch life insurance companies under the life insurance business act (described later in this chapter as part of the Dutch prudential reporting developments), he requested more attention for the issue, in particular in respect of comparison over time and between companies in the same industry.

In Munnik’s experience, the requirements of the commercial code did, generally, not work (although he did note that they were only introduced recently), and the results were in no way comparable to the high quality annual accounts that UK companies provided under the 1929 commercial code.

---

296 Hinnen (1948).
297 Dijker (1948).
298 Munnik (1931).
The topic was raised again by the auditor F.F. van Doorne in 1935, who, for the protection of the creditors and the shareholders, recommended more uniformity in the layout of the balance sheet, which should be legally required and aligned to the activities of individual industries. As Munnik, he mentioned the life insurance industry as an example of best practice. Similar views on the need to take industry characteristics into account were expressed by W.C. Koppenberg Jr., another auditor, who referred to the earlier discussions raised by van Slooten in 1900, Beerenborg in 1907, and Munnik in 1931.

The publications of 1931 and 1935 were, however, the only ones I have identified in the period that specifically referred to the insurance industry. Subsequent publications ignored this industry. It is therefore, in my view, doubtful whether reporting requirements for insurers had any influence on the general debate on necessary improvements in financial reporting practices.

The subsequent accounting literature showed only one article on the topic, published in 1968 by the auditor F. Graafstal in 1968: in his view, the accounts should give insight into the functional structure of the company and the sources of profit. In the interest of a company, it should be permitted to present this information in a form that was useful for its own management purposes, and it should not be compelled to provide information which had no significance, but created plenty of work.

Because of the requirements to use the mandatory formats under the life insurance business act, the discussion on uniformity of layouts was not relevant for life insurers, and, after the mid-1960s, also not for non-life insurers, as is explained later in this chapter when presenting the Dutch prudential reporting developments.

5.3.4.5 Summary and conclusions
The overview of developments shows that, first of all, the government was able, in the late 1920s, to resolve the stalemate situation with Parliament in respect of the financial reporting requirements for private joint stock companies. This occurred in two steps:

- Firstly, a revised commercial code was adopted in 1928, requiring the preparation and the publication of a balance sheet and a profit and loss account by depositing them at the trade register. This requirement was applicable to all joint stock companies, and was effective at 1 April 1929, i.e. for the annual accounts regarding the financial years starting after this date; and
- Secondly, based on the recommendations of an advisory committee appointed immediately after the adoption of the act, the publication requirements were amended in June 1929 and effective immediately. This limited these requirements to the balance sheet of joint stock companies which had or were capable of issuing bearer shares, were listed, or involved in deposit-taking or insurance activities. For these companies, the act introduced a list of assets that, at least, had to be shown. Under the act, life insurance companies did not have to apply this list, but could (i.e. were allowed to) continue to report under the models of the life insurance business act (a type 1 single-track reporting approach).

---

299 As is described earlier in this section, protection of the equity was one of the objectives of the 1929 code.
300 van Doorne (1935).
301 Koppenberg (1935). The contributions of the first two authors are described in section 4.3.3.2.3.
302 Graafstal (1968).
However, in reality this option was eliminated by the government itself (which, during the parliamentary discussions, had expressed an explicit preference for a type 1 single-track reporting approach) and by the Insurance Chamber, which had made it clear that, in its view, the prudential returns had to be designated and published as the official financial statements.

The next step to improve the financial reporting practices was taken in the beginning of the 1950s, when a start was made to amend and fundamentally renew the civil code of 1838. The new code, adopted in 1960 but not yet effective, introduced the possibility for the government to include the publication requirements in an Administrative Decree, as a substitute for the mandatory list of assets included in the commercial code of 1929. In the meantime, however, a number of private initiatives were also developed to improve the quality of financial reporting, generally focusing on the interest of the public at large. These were:

- The introduction of the Henri Sijthoff award for the best set of annual accounts by a leading Dutch financial journal in 1954;
- The 1955 Rijkens report of the Dutch employers’ organisations;
- The 1959 report of the Wiardi Beckman Foundation, an organisation linked to the Dutch labour party;
- The 1962 Hamburger report of the Dutch employers’ organisations;
- The 1962 report of the Telder Foundation, an organisation linked to the Dutch liberal party; and
- The 1963 report of the Society for Investor protection, an investors’ organisation.

All these reports focused on improving the contents of the financial statements, for instance by providing more information on the items in the balance sheet and in the profit and loss account, and also by the inclusion of the (changes in the) accounting policies. However, none of them focused on or debated potential improvements in the financial reporting requirements for insurance companies; in fact, they were completely ignored.

The sequence of the reports presented above shows that it were the preparers’ organisations that took the lead in improving the financial reporting practices on a voluntary basis. This is remarkable, and can possibly be explained by the international expansion and US listings of several Dutch companies, which, in turn, made them subject to the more stringent financial reporting requirements of the SEC, the NYSE, and the US auditing profession. I consider it very well possible that this was a significant factor in increasing the awareness in Dutch international companies of the importance of improved financial reporting practices. But also the developments in the UK, in particular the introduction of the true and fair view requirement, almost certainly played a role.

The international expansion and US listings of major Dutch companies would also explain the calls for international accounting harmonisation by Kraayenhof and others, presented earlier in this chapter.

While these private reports were issued, the government had already taken a new step by the appointment of another advisory committee (the so-called Verdam committee). In its report, issued in 1964, it proposed the creation of a separate act on the annual accounts.
Under the proposals of the Verdam committee, the financial statements should present faithfully and consistently the financial position and the return on invested capital, as well as the solvency and liquidity position of the reporting company. Furthermore, the accounting policies should satisfy norms that were considered to be acceptable in the economic and social climate. These overarching principles were supported by a number of detailed requirements, specifying items that should, as a minimum, be disclosed on the face of the primary statements or in the notes. After a number of limited amendments during the discussions in Parliament, the recommendations resulted in the companies’ annual accounts act, adopted in 1970 and effective as of 1 May 1971.

With the adoption of this act, the legislative backlog compared to the UK was more or less resolved. However, in respect of private accounting standard setting activities, the Netherlands was still far behind both the UK and the US.

In the discussions on these legislative and private initiatives, the Dutch auditing profession was more active than in the previous period: not just its influential member Kraayenhof was a member of several committees and an advisor to the government, but the auditing organisations themselves also participated by submitting comment letters and recommendations, for instance concerning the acceptability of secret and undisclosed reserves, and on accounting for deferred tax. The Stock Exchange Association became more active as well: although it still refrained from providing guidance on the contents of the annual accounts, it did require, from 1958 onwards, the publication of consolidated financial statements.

This topic was also debated in the accounting literature, in which, gradually, a form of consensus emerged (stimulated by examples in practice, for instance by the Philips) that the publication of consolidated accounts was the best way to provide information of the activities of a group of companies. A similar trend was observed in respect of the secret and undisclosed reserves, which were more and more rejected, although there were, in particular at the end of the 1940s, still some fierce proponents for the use of these reserves.

None of the legislative developments or debates made reference to the financial statements of insurance companies. I can only explain this by the fact that the annual accounts of these companies were already subject to extensive reporting requirements and already included the necessary information to assess the financial position and performance, including any secret or undisclosed reserves. Whether or not the developments impacted the prevailing type 1 single-track reporting approach, is discussed later in this chapter as part of the Dutch prudential reporting developments.

5.4 Prudential reporting developments

5.4.1 Prudential reporting developments on European, UK and US levels

5.4.1.1 Introduction

This section discusses the prudential reporting developments on European, UK and US levels, and shows that, compared to the previous and the subsequent periods, they were all relatively minor and did, in general, not have a direct impact on the Dutch developments in the period reviewed in this chapter.

On the European level, the description focuses on the establishment of the first directive on reinsurance business and on the cooperation activities employed by European insurance supervisors.
In the UK, the most important event was the adoption of a new insurance companies act in 1946, which replaced the 1909 act and, for the first time, introduced required solvency margins (without prudential filters) for all insurance companies. This act was followed by a new insurance companies act in 1958, which consolidated the previous acts of 1909 and 1946, but did not introduce fundamental changes; however, it did provide several clarifications, among others in respect of the models of the prudential returns.

Concerning the US developments, the main development in the period was the adoption of the so-called ‘McCarran-Ferguson act’ in 1945 and its subsequent amendments, which confirmed that the states, and not the federal government, were in charge of supervising insurance companies. This act had a profound impact on the state legislation and on the activities (and position) of the NAIC. In particular, it resulted in more and more states adopting the model prudential returns developed by the NAIC and its related set of accounting principles, thereby gradually increasing the differences in principles adopted by insurers in their financial statements (which, as is explained earlier as part of the US financial reporting developments, were still based on the prudential returns) and those adopted by non-insurers.

5.4.1.2 Council directive 64/225/EEC on restrictions to carry out reinsurance business
The first relevant European directive was issued in 1964 and dealt with the abolition of the restrictions on the freedom of establishment and the freedom to provide services in respect of reinsurance and retrocession.\textsuperscript{303} It focused particularly on Belgium, France, Germany, Italy, and Luxembourg. These member states were required to abolish the restrictions in their national legislation affecting the right of natural persons, companies or firms to take up and pursue activities in respect of (but limited to) reinsurance and retrocession. Because the Netherlands did not have such restrictions, it was not included in the scope of the directive, and this development had no impact on Dutch legislation. The freedom of establishment and services for the insurance business was regulated by a number of subsequent directives, which are discussed in the next chapter.\textsuperscript{304}

5.4.1.3 The Conference of the European Insurance Supervisory Authorities
Well before the creation of the EEC in 1957 and the issuance of the first insurance directives, which resulted in the need for international cooperation between the insurance supervisors in the EEC, international contacts between such supervisors already existed, through the ‘Conference of the European Insurance Supervisory Authorities’ (henceforth, the ‘Conference’).

This activity started in Brussels in October 1949, as the result of an initiative by the Dutch Insurance Chamber in 1948.\textsuperscript{305} It brought 13 European national supervisors together. This first meeting quickly revealed the major differences in the nature of supervision. As is explained in the previous chapter, almost all European continental countries applied a strict preventive style of supervision at the time (with preapproval of new products, premium rates, and several kinds of management decisions), while the UK and the Netherlands applied a purely repressive style, under which there was almost full freedom for the companies, combined with specific reporting requirements afterwards.

\textsuperscript{303} European Commission (1964).
\textsuperscript{304} See section 6.6.
\textsuperscript{305} Campagne (1950).
The latter was the ‘freedom with publicity’ approach.\textsuperscript{306} This difference in supervisory styles between countries had an impact in the discussions on the developments of the prudential directives and continued to exist for many years: it was only resolved by the third insurance directives in 1992.\textsuperscript{307}

The second Conference took place in May 1952 in Amsterdam.\textsuperscript{308} Issues of common interest were discussed, such as the harmonisation of mortality tables, reinsurance supervision, and the annual accounts. In all areas, it was concluded that the differences in the local legislation made this impossible.\textsuperscript{309} In the third conference, held in October 1956 in Rome, it was noted that there were (still) large differences both in the status and in the working methods and the powers of the supervisory authorities.\textsuperscript{310} Furthermore, the supervision of non-life insurance companies differed, with the Netherlands being one of the few countries where such supervision was absent.

Another important difference concerned the investments of life insurance companies, the spread of which was strictly regulated in a large number of countries, with the UK and the Netherlands being the exceptions; in these two countries, such a spread was determined by the insurers themselves, based on the supervisory principle of ‘freedom with publicity’, described in the previous chapter.\textsuperscript{311} Another topic included the acceptability of the Zillmer method (which was, generally, rejected by all countries, except for the Netherlands and the UK). The noted similarities in the Dutch and the UK approaches to insurance supervision and the differences with continental European regimes show, in my view, that, although in both countries the supervisory rules were created by the government instead of by others, the style of supervision was based on business economics, theory and practice, as a result of the relatively independent position of insurers under the ‘freedom with publicity’ approach. In that sense, Nobes’ classification system of accounting systems presented in chapter 2 was also applicable to insurance supervision.\textsuperscript{312}

After these first three events, the Conference was held every three or four years.\textsuperscript{313} But its main focus shifted to its involvement in developing proposals for EEC directives.\textsuperscript{314} Any relevant initiatives are discussed in the sections dealing with these directives. However, it can already be noted that these directives (on which the discussions started in the 1960s) included solvency requirements and that the Conference concluded specific cooperation protocols to assess any undisclosed reserves in a harmonised way. This is, in my view, a piece of evidence that the issue of solvency requirements was one of the developing themes in the period described in this chapter.

\footnotesize
\textsuperscript{306} See section 4.4.1 and 4.4.3.
\textsuperscript{307} See section 7.6.4.
\textsuperscript{308} Campagne (1953a).
\textsuperscript{309} The differences in the reporting requirements were only resolved in 1991 with the introduction of the insurance accounts directive (see section 7.4.2.2.2).
\textsuperscript{310} Verzekeringenblad (1956).
\textsuperscript{311} See sections 4.4.1.2 and 4.4.3.11, respectively.
\textsuperscript{312} See section 2.2.2.
\textsuperscript{313} OECD (2005).
\textsuperscript{314} Everts (1960).
The Conference focused on the coordination of insurance supervision. In this respect, its role was different from that of the ‘Insurance Committee of the European Communities’, composed of representatives of insurance supervisors as well as Ministries of Finance, whose task mainly was to directly assist, as an expert group, the European Commission in its development of proposals for (amended) directives.  

The Conference was abolished with the creation of the ‘Committee of European Insurance and Occupational Pensions Supervisors’, henceforth, the ‘CEIOPS’, discussed later in this dissertation.

5.4.1.4 The UK assurance companies act of 1946

The most important event in the UK prudential reporting developments was the adoption of the ‘Assurance companies act 1946’. With this act, for the first time, required solvency margins were introduced if an insurance company wanted to be in business. The act was the result of a review of the 1909 act by a ‘Departmental committee of the Board of Trade’ which was set up in 1924, but did not report until 1927.

This report was discussed in the press. It was accompanied by proposed legislation, with the intention to repeal the act of 1909 and to replace it by a new codifying act. Marine and motor business would come within the scope of the new legislation, and, as under the old act, separate deposits would be required for life insurance, employers’ liability insurance, and industrial assurance business. The Board of Trade would be given increased powers. The accounts and returns would include greater detail. However, no further legislation was passed until the ‘Assurance companies (winding-up) act 1933’, which allowed the Board of Trade to submit to the court a petition for a winding-up if an insurance company was regarded as insolvent. It could also, through the court, request information from a company in order to evaluate its solvency position, to better protect the interests of policyholders. Additionally, an amendment to the act in 1935 gave the Board of Trade the power to request information if it had the suspicion of insolvency.

There was no further major legislation until the 1946 act, which introduced a required solvency margin (set at GBP 50,000) instead of deposits. In this way, the state attempted to protect customers from investing in companies which were barely solvent. The act also brought marine, aviation and transit insurance business under the scope of supervision. Prudential filters were not discussed.

An article in the Dutch insurance press presented some further information on the 1946 act. It explained that, under the 1933 and 1935 acts, insolvency was used in the ordinary sense, i.e. the impossibility to pay debts. As a result, there were no supervisory powers to prevent a company to get into such a situation. The 1946 act provided the solution, enabling the supervisor to intervene when the financial position of an insurance company deteriorated for such an amount that the solvency requirements could not anymore be met.

---

315 Schoenmaker and Mink (2002).
316 See section 8.3.3.4.
317 UK Government (1946).
318 Booth (2007).
319 The Accountant (1927).
320 Booth (2007).
321 The term ‘required solvency margin’ is explained in section 2.8.1.
322 VVP (1946).
5.4.1.5 The UK insurance companies act of 1958
This act consolidated and repealed the previous acts, adopted in 1909 and 1946.\textsuperscript{323} It applied to insurers transacting life, industrial life, fire, personal accident and sickness, bond investment, motor, marine, and aviation and transit insurance business, and to any company which transacted employers’ liability insurance business but not any of the aforementioned categories.

According to Day, the act made it clear that annual accounts had to be prepared and deposited in prescribed forms, for which the Board of Trade could make regulations.\textsuperscript{324} The act was amended as a result of the adoption of the companies act of 1967, discussed earlier in this chapter as part of the description of the UK financial reporting developments. This act introduced, with specific definitions, a distinction of insurance business into different classes. Furthermore, it defined the applicable required solvency margins, which depended on the size of the company (but, still, without prudential filters). Finally, it amended the requirements to prepare actuarial valuations of the life insurance provisions: with a transition period of two years, the maximum interval of five years between the successive actuarial valuations was changed into three years. As is explained earlier when presenting the UK financial reporting developments, the combination of financial and prudential reporting acts resulted in a type 3 single-track reporting approach.

5.4.1.6 The US McCarran-Fergusson act
In the US, the battle of jurisdiction between the states and the federal government on insurance supervision had not ended with the Supreme Court decision in 1868.\textsuperscript{325} Subsequent cases followed, in which both the states and the insurers strongly rejected a higher degree of federal involvement.\textsuperscript{326} Mid-1944, the Supreme Court disagreed with the insurers once more (‘U.S. v South-Eastern Underwriters Association’).\textsuperscript{327} It ruled that the federal court did indeed have jurisdiction over them because insurance business was clearly interstate commerce and Congress had authority under the Constitution to regulate such activities. The decision created uncertainty among the insurers, regulators, and state legislators, and the states asked the Congress to clarify these issues quickly. This led, in March 1945, to the ‘McCarran-Fergusson act’. The new act emphasised the congressional respect for the states’ taxation and regulation of the insurance business and imposed a moratorium on the enforcement of the federal antitrust legislation. In the act, the Congress declared, as a matter of policy, “that the continued regulation and taxation by the several states of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several states.”\textsuperscript{328} However, if the states did not regulate the business of insurance, the existing federal acts on interstate trading activities would apply.\textsuperscript{329}

\textsuperscript{323} UK Government (1958).
\textsuperscript{324} Day (1964).
\textsuperscript{325} Webel and Cobb (2005). The decision is described in section 4.4.2.2.
\textsuperscript{326} Randall (1999) mentioned Supreme Court decisions in 1913, 1914 and 1915, all maintaining the position that insurance business was not subject to federal oversight. Furthermore, McCray (1992) referred to a conclusion by the judiciary commission of the House and the Senate in 1906 that the Congress did not have the constitutional power to regulate the business of marine, fire and life insurance.
\textsuperscript{327} The ‘South-Eastern Underwriters Association’ was an association with nearly 200 private fire insurance companies as members, who were being accused of violating the ‘Sherman (anti-trust) act’: see Kimball and Heaney (1995).
\textsuperscript{328} Webel and Cobb (2005).
\textsuperscript{329} Randall (1999).
Randall showed that, since the early 1950s, the Congress and the state insurance regulators had engaged in a “tug-of-war”: the Congress investigated the effectiveness or efficiency of the state regulations, the state regulators changed their regulations in response, and then the interest and attention waned – until the cycle began again. As subsequent chapters show, this was, however, not the end of the story: discussions on which regulator was responsible for oversight continued.

5.4.1.7 Activities of the NAIC and in the State of New York

As a response to the McCarran-Fergusson act, the NAIC drafted, in 1946, a model law to pre-empt the application of the federal trade commission act to the business of insurance. The model gave the state’s insurance commissioner broad powers to investigate the insurers, and all states enacted it. The rapid adoption by the states of the NAIC models was a direct result of the McCarran-Fergusson act: the threat of federal intervention created a spirit of cooperation between the state insurance regulators, and the states were more likely to enact legislation that followed more closely the NAIC’s recommendations.

The NAIC also took further steps regarding the development of accounting principles to be applied in the annual returns to the insurance supervisors, the so-called ‘statutory accounting principles’ (henceforth, the ‘SAP’). For the non-amortisable securities, the system of market values, adopted in 1922, was changed to average values during the years 1931-1938, in 1939 followed again by market values. Following the developments in New York, described hereafter, in 1940 the NAIC also adopted a requirement to measure corporate debt securities at amortised cost if they met certain rating conditions.

And in 1949, the NAIC ‘Securities Valuation Office’ was established, the successor of its Committee on Valuation of Securities, discussed in the previous chapter. It conducted credit analysis to determine the ratings and values for debt securities, to provide a uniform valuation methodology. Furthermore, the NAIC introduced, in 1951, a system of a mandatory securities reserve for investments, to which realised gains were credited and against which realised losses and write-downs of certain debt securities and preferred shares were charged, provided that a certain minimum was still met.

Another important change in the prudential reporting requirements was described by Raymond. He pointed at the 1951 revision of the ‘Convention Blank’, which was often characterised as a major milestone in the development of the life insurance company financial and prudential reporting requirements. It was the first major change in the format since its adoption in 1871, and introduced a profit and loss account based on the use of the accrual basis for the primary statements. Furthermore, to assess the financial position of an insurer, any (mostly immaterial) non-admitted assets were, from 1951 onwards, completely removed from the balance sheet, and only listed in a supporting exhibit which was not included in the reports to the shareholders.

330 Ibid.
331 See section 6.5.2.7.
333 LI AA (1962).
334 See section 4.4.2.3.
335 Raymond (1965).
336 As is described in section 4.4.2.3, this was the uniform reporting model for the prudential statements.
All these changes in the NAIC regulations had no impact on the, at the time, prevailing type 1 single-track reporting approach.

Regarding the developments in the insurance act of New York, the only important change occurred in 1932, when it, related to the large number of defaulting debt securities, started requiring that corporate debt securities could be measured at amortised cost only if they fell within the first five rating grades of one of the four rating agencies.\footnote{LIAA (1962).} This brought into use the rating tests, which, with occasional modifications over time, continued to be an integral part of the valuation rules since. The solvency requirements introduced in the 1906 New York insurance act, through the ‘Appleton Rule’ effectively applicable throughout the US,\footnote{See section 4.4.2.4.} remained unamended in place.

5.4.1.8 Summary and conclusions

As the descriptions in this section show, there was only a limited amount of activities of the European Commission in the period reviewed in this chapter: one directive was issued to eliminate the restrictions to carry out reinsurance business, which was not applicable to the Netherlands. The only other European development impacting the insurance industry was the establishment of a platform for the European insurance supervisors, enabling them to exchange ideas and to find the appropriate ways to work together.

With respect to the UK developments, the main development occurred in 1948, with the abolishment of the requirement on deposits, which was replaced by solvency requirements for all types of insurance companies. Prudential filters were still absent, resulting in a type 3 single-track reporting approach.

Concerning the US, the main development was the adoption of legislation confirming the authority of the states to supervise insurance companies. The resulting state laws were more and more based on models developed by the NAIC. This organisation also introduced, in line with the developments in New York, mandatory systems for the valuation of the investments, and, from 1951 onwards, eliminated, for the purpose of insurance supervision and the assessment of the financial position of an insurer, those assets that were not eligible to cover the insurance liabilities completely from the balance sheet, making the prudential returns of insurers less comparable to the financial statements of other companies. The 1906 solvency requirements introduced by the State of New York remained in place and continued to be effective throughout the US. Despite these changes, the type 1 single-track reporting approach was maintained.

5.4.2 Prudential reporting developments in the Netherlands

5.4.2.1 Introduction

This section presents the contents of the 1922 life insurance business act and its related Administrative Decrees, in particular the Decree including the prudential reporting requirements for life insurers. Subsequently, it describes the amendments to this act and the Decrees, several of which introduced some changes, but did not alter the basic approach. It also explains that, although the Insurance Chamber did not issue separate rules or guidance on the prudential reporting practices, it did influence them by the comments in its annual reports.
The section concludes with an overview of the developments resulting in the adoption, in 1964, of the non-life insurance business act and presents the contents of the reporting requirements for these companies, which were relatively similar, but not identical, to those applicable to life insurers. The 1964 act made a type 1 single-track reporting approach mandatory for all insurers.

5.4.2.2 The life insurance business act of 1922 and the first Administrative Decrees

As is noted in the previous chapter, the first Dutch life insurance business act was finally adopted at the end of 1922, after more than 40 years of debate. It was based on the UK approach of ‘freedom with publicity’, under which the insurance supervisor, generally, did not intervene in the business decisions of the company, in exchange for extensive financial reporting requirements to the supervisor, the policyholders and the public in general.

The new act was published early January 1923. It focused on life insurance business, which was defined as the business of concluding insurance contracts to pay monetary benefits in exchange for a premium and in relation to the life or death of a human being, but excluding contracts covering accidents. The domestic life insurance companies had to be joint stock companies or mutual insurance companies, unless the transitional provisions were effective. They were not allowed to carry on any other business, unless they concluded reinsurance contracts only. Furthermore, they needed at least NLG 1 million authorised and issued capital. However, by Administrative Decree the government could introduce lower amounts for specifically designated companies.

The act introduced an independent supervisory authority, called the Insurance Chamber. To carry on life insurance business, domestic companies had to submit certain information to this chamber, which, if it agreed with the company that all requirements of the act had been met, issued and published a declaration stating so. Without such a declaration, life insurance business was prohibited. Foreign life insurance companies had to prove to the chamber that they were established as legal entities according to their national legislation, to appoint a legal representative in the Netherlands, and to meet the legal requirements regarding the authorised capital and the other regulations, included in an Administrative Decree in respect of the assets covering their Dutch insurance liabilities. However, the act did not include any specific solvency requirements related to the size or the risks of an insurer, in contrast to the situation in the US, as is described in the previous section. As a result, prudential filters were not applicable.

The insurers should provide the Insurance Chamber information on the organisation of its business and, additionally, all information the chamber requested. The chamber was authorised to issue recommendations to an insurer and, if it was not satisfied with the response, to make these public. I have not found, in any of the archives or libraries I have visited, any publication of such specific recommendations. Furthermore, I have not found any brochures, circulars or other separate publications of the Insurance Chamber providing guidance or rules in respect of the prudential reporting practices of life insurers in the period reviewed in this chapter. However, I have identified a number of generic comments and recommendations on such practices in the annual reports of the chamber.

---

339 See section 4.4.3.11.
340 Minister van Justitie (1923a), Staatsblad 1923, nr. 716.
341 The term ‘domestic’ referred to the European part of the Kingdom of the Netherlands only: companies established in one of the colonies were considered to be foreign companies.
These general comments and recommendations of the Insurance Chamber dealt, among others, with secret and undisclosed reserves, discount rates, mortality developments, and the presentation of tax, and are presented in the section describing the actual reporting practices of the companies reviewed in this dissertation.

The financial year for a domestic insurance company had to equal the calendar year. Every insurer should submit annually to the Insurance Chamber a set of schedules, the models of which were determined by an Administrative Decree. They should provide a clear and full picture of the management of the company and its financial position. Additionally, every insurer had to prepare a financial report including all schedules and to make this report available to all shareholders and policyholders. In other words, the same information was provided to all interested parties. The Insurance Chamber could start, at its own discretion, an examination concerning the correctness of the schedules, and was obliged to do so at least every ten years. The reporting requirements had to be applied, for the first time, three years after this effective date. The Insurance Chamber could extend this period indefinitely for existing run-off companies and with two years for other companies. Finally, the act stipulated that, by Administrative Decree, additional requirements could be introduced in the interest of an appropriate execution of the act.

Additionally, the act included provisions regarding portfolio transfers (which included mergers), and regarding life insurance companies in need of special regulations. This was the part succeeding the 1921 emergency act, discussed in the previous chapter. Under the new act, the examining magistrate was replaced by the Insurance Chamber. The act included a number of transitional provisions for the insurers existing at the effective date of the act.

In general, the adoption of the act was received well in the insurance press, mainly based on the argument that, although there could still be differences in views on the proposals, it was – after the fall of the Algemeene and the Kosmos – more essential than not to have legislation in place. At the same time, the new legislation to protect the interests of life insurance policyholders revitalised the debate on a similar system for the policyholders of fire and marine insurers. For instance, a lecture delivered in October 1924 noted that the Netherlands, compared to a number of other countries, had fallen far behind in this respect, and recommended an expansion of the life insurance business act to include such non-life insurance business as well. This view was strongly supported in an editorial comment of an insurance magazine shortly after, noting that the state of the fire and marine insurance business was one of anarchy, and that the industry had been consistently unable to address this issue itself. Regarding fire insurance business, support was also delivered by another insurance magazine, which quoted a publication mentioning the names of over 80 companies which went bankrupt or became insolvent recently. However, as is described later in this section, it would take more than 40 years and some other major insolvencies before supervision of non-life insurance companies was introduced.

In the three years after the publication of the 1922 act, a number of Administrative Decrees were published, on a variety of topics.

---

342 See section 4.4.3.10.
343 The fall of these two large insurers is described in section 4.4.3.9.
344 De Polis (1924a).
345 De Polis (1924b).
346 Verzekeringsblad (1924).
The first was issued early July 1923. It repealed the Royal Decrees issued in the 19\textsuperscript{th} century. A Decree issued shortly after included provisions regarding the required solvency margin (in the form of minimum capital requirements) for the existing companies.

For the purpose of this dissertation the most important Administrative Decree was issued in July 1925. It included the reporting schedules to be submitted to the Insurance Chamber and made available to the public, identifying separate series of schedules for different types of companies. For life insurance and industrial assurance companies, as well as funeral funds, schedules L1 to L17 were applicable. The order included specific guidance and rules to prepare the schedules. A full list of the schedules and the supporting notes is included in table A9.67. The models for the balance sheet (L2) and the profit and loss account (L1) are presented hereafter.

Table 5.4: Life insurance business act of 1922 – balance sheet in accordance with the 1925 models – assets

<table>
<thead>
<tr>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribed share capital/guarantee capital unpaid (schedule 6)</td>
</tr>
<tr>
<td>Invested statutory reserve</td>
</tr>
<tr>
<td>Invested extra reserve</td>
</tr>
<tr>
<td>Invested pension fund</td>
</tr>
<tr>
<td>Land and buildings (schedule 7)</td>
</tr>
<tr>
<td>Loans guaranteed by mortgages (schedules 8a to 8f, and if necessary schedule 8)</td>
</tr>
<tr>
<td>Securities (schedules 9 and 9a)</td>
</tr>
<tr>
<td>Shares in affiliated undertakings and subsidiaries (schedule 5)</td>
</tr>
<tr>
<td>Private loans to provinces, municipalities, water boards, and the like (schedule 10)</td>
</tr>
<tr>
<td>Policy loans</td>
</tr>
<tr>
<td>Assets in bare ownership</td>
</tr>
<tr>
<td>Usufructs</td>
</tr>
<tr>
<td>Deposits</td>
</tr>
<tr>
<td>Cash deposits with reinsurers (schedule 3a)</td>
</tr>
<tr>
<td>Continuations and loans on securities</td>
</tr>
<tr>
<td>Balances with bankers and cashiers, giro accounts</td>
</tr>
<tr>
<td>Other investments, to be specified by group</td>
</tr>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Interest and rental income receivable</td>
</tr>
<tr>
<td>Balances with agents and office collection</td>
</tr>
<tr>
<td>Balances with reinsurers</td>
</tr>
<tr>
<td>Miscellaneous debtors (schedule 3a)</td>
</tr>
<tr>
<td>Furniture</td>
</tr>
<tr>
<td>Tontine companies</td>
</tr>
<tr>
<td>Investments (schedules 5 4b, 7 to 11)</td>
</tr>
<tr>
<td>Administration fees receivable (schedule 5 4)</td>
</tr>
<tr>
<td>Other assets</td>
</tr>
<tr>
<td>Other assets, to be specified by group</td>
</tr>
<tr>
<td>Incorporation and expansion cost</td>
</tr>
<tr>
<td>Net loss for the year</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: table A9.69.

---

347 Minister van Justitie (1923b), Staatsblad 1923, nr. 337.
348 See section 4.4.3.2.
349 Minister van Justitie (1923c), Staatsblad 1923, nr. 499.
350 Minister van Justitie (1923d), Staatsblad 1923, nr. 507.
351 Minister van Justitie (1925), Staatsblad 1925, nr. 335.
Table 5.5: Life insurance business act of 1922 – balance sheet in accordance with the 1925 models – liabilities

<table>
<thead>
<tr>
<th>Credit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory capital/guarantee capital</td>
<td></td>
</tr>
<tr>
<td>Of which not issued</td>
<td></td>
</tr>
<tr>
<td>Reserves (schedule 3a)</td>
<td></td>
</tr>
<tr>
<td>Statutory reserve</td>
<td></td>
</tr>
<tr>
<td>Extra reserve</td>
<td></td>
</tr>
<tr>
<td>Investment reserve</td>
<td></td>
</tr>
<tr>
<td>Reserves for doubtful debtors</td>
<td></td>
</tr>
<tr>
<td>Other reserves, to be specified</td>
<td></td>
</tr>
<tr>
<td>Staff pension fund</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td></td>
</tr>
<tr>
<td>Loans guaranteed by mortgages</td>
<td></td>
</tr>
<tr>
<td>Balances with bankers</td>
<td></td>
</tr>
<tr>
<td>Other loans without collateral</td>
<td></td>
</tr>
<tr>
<td>Life insurance provision (schedules 15 and 16)</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>Cash deposited by reinsurers (schedule 3a)</td>
<td></td>
</tr>
<tr>
<td>Balances with agents</td>
<td></td>
</tr>
<tr>
<td>Balances with reinsurers</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous creditors</td>
<td></td>
</tr>
<tr>
<td>Unpaid dividends, profit participation and bonuses of previous years</td>
<td></td>
</tr>
<tr>
<td>Tontine companies</td>
<td></td>
</tr>
<tr>
<td>Saving balances (schedules 5 4a and 4b)</td>
<td></td>
</tr>
<tr>
<td>Provision for administrative expenses (schedule 15)</td>
<td></td>
</tr>
<tr>
<td>Provision for administration fees (schedule 5 4)</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td></td>
</tr>
<tr>
<td>Other liabilities, to be specified by group</td>
<td></td>
</tr>
<tr>
<td>Unallocated profit</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.70.
Table 5.6: Life insurance business act of 1922 – profit and loss account in accordance with the 1925 models

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative balance of the previous year</td>
<td>Undivided profit of the last year</td>
</tr>
<tr>
<td>Life insurance provision for own account at the end of the year</td>
<td>Life insurance provision for own account at the end of last year</td>
</tr>
<tr>
<td>Total claims, split into gross amount, reinsurance amount, and amount for own account</td>
<td>Total premiums, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td>Premium refunds at death, split into gross amount, reinsurance amount, and amount for own account</td>
<td>Regular premiums (including collection surcharges), split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td>Capital at death, split into gross amount, reinsurance amount, and amount for own account</td>
<td>Single premiums, split into gross amount, reinsurance amount, and amount for own account</td>
</tr>
<tr>
<td>Capital at expiration, split into gross amount, reinsurance amount, and amount for own account</td>
<td>Interest income (schedule 3)</td>
</tr>
<tr>
<td>Annuities, split into gross amount, reinsurance amount, and amount for own account</td>
<td>Rental income</td>
</tr>
<tr>
<td>Surrenders, split into gross amount, reinsurance amount, and amount for own account</td>
<td>Gross rental income</td>
</tr>
<tr>
<td>Expenses (schedule 4)</td>
<td>Exploitation expenses</td>
</tr>
<tr>
<td>Staff pension fund</td>
<td>Reimbursement of policy expenses (excluding stamp duties)</td>
</tr>
<tr>
<td>Losses on investments, to be specified according to the balance sheet items</td>
<td>Gains on investments, to be specified according to the balance sheet items</td>
</tr>
<tr>
<td>Foreign currency losses (not related to securities)</td>
<td>Foreign currency gains (not related to securities)</td>
</tr>
<tr>
<td>Other charges, to be specified</td>
<td>Other income, to be specified</td>
</tr>
<tr>
<td>Tontine company’s provision for administrative expenses at the end of the year</td>
<td>Tontine companies</td>
</tr>
<tr>
<td>Ordinary depreciation, to be specified</td>
<td>Administration fees</td>
</tr>
<tr>
<td>Balance, to be appropriated to additional depreciation charges (to be specified), extra reserves (to be specified), and dividends, bonuses etc. (to be specified)</td>
<td>Provision for administrative expenses at the beginning of the year</td>
</tr>
<tr>
<td>Total</td>
<td>Balance</td>
</tr>
</tbody>
</table>

Source: table A9.68.

The notes to the profit and loss account and to the balance sheet were in schedules L3 and L3a, respectively. Included in these notes was a table detailing the interest income. Finally, schedule L4 presented a breakdown of expenses.

The other schedules provided mainly extensive details of the investments and the technical provisions. A comprehensive overview of the accounting principles was not required, although the methods and assumptions to determine the life insurance provision had to be disclosed in the actuarial report, which was included as a separate schedule.

---

352 See table A9.71.
353 See table A9.72.
Overall, as Niemeijer, the chair of the advisory committee on the act, noted, the contents of the schedules and the accompanying guidance did not substantially deviate from the recommendations of his committee in 1920, although the level of detail and structure of some schedules and requirements was different. 354 The Decree ruled that if a schedule was co-signed by an auditor, this implied that he had concluded that it presented the true situation. However, neither the Decree nor the act required the appointment of an auditor, as this profession did not yet legally exist.

The instructions accompanying the schedules noted that it was prohibited to add or omit line items in the balance sheet or the profit and loss account, unless this was explicitly required or allowed. Furthermore, these primary statements did not allow the presentation of comparative amounts. However, the notes to these schedules required comparative information for each individual line item.

5.4.2.3 Developments in the period 1925-1949

The Insurance Chamber was established in 1923 and the first year of the mandatory reporting by insurance companies in compliance with the life insurance business act was 1925. The experiences in the first years were described by M. van Haaften, who analysed the first three annual reports issued by the Insurance Chamber. 355 He was an actuary, managing director of the oldest Dutch life insurer the ‘Hollandsche Sociëteit van Levensverzekering’, and a professor in mathematics in Amsterdam. Although he was generally positive about a large number of initiatives that the chamber had undertaken, he was also critical of the fact that, in his view, the chamber had stepped outside its legal boundaries by issuing several general statements, potentially limiting the business freedom that the act had allocated to the companies. Examples were, he noted, the critical comments by the chamber on certain methods to calculate the life insurance provision, and the requirement to account for all changes in this provision through the profit and loss account, while, at the same time, the valuation changes in investments could be taken through equity. 356 In contrast to these views, the Insurance Chamber itself reported a number of issues regarding the practical application of the models for the prudential statements in the first few years, but subsequently noted that the level of compliance had become satisfactory. 357 In line with this view, there were only a few articles in the insurance press at the end of the 1920s, signalling some practical problems regarding the contents of specific schedules, but the general discussion on life insurance company supervision seemed to have come to an end.

Regarding the act and the accompanying Administrative Decrees, until 1949 only a few changes were made after their initial adoption. Amendments occurred in 1929, 358 in 1935, 359 in 1937, 360 and in 1949, 361 but none of these introduced fundamental changes in the act.

354 Niemeijer (1925). The proposals of the committee are described in section 4.4.3.8.
355 van Haaften (1927).
356 This method to account for movements in the life insurance provision in the profit and loss account was explicitly prescribed by the Insurance Chamber in 1925: see Verzekeringskamer (A1925).
357 Verzekeringskamer (A1928).
358 Minister van Justitie (1929a), Staatsblad 1929, nr. 202.
359 Minister van Justitie (1935), Staatsblad 1935, nr. 41.
360 Minister van Justitie (1937), Staatsblad 1937, nr. 200.
361 Minister van Justitie (1949a), Staatsblad 1949, nr. J 121.
However, Gales noted that, apart from the act and related Administrative Decrees, other requirements were also applicable to the life insurers. For instance, the Insurance Chamber ruled in 1947 that a life insurance company could not own more than 25% of the shares of a non-life insurer, although the chamber grandfathered existing shareholdings.

For a number of years, the mandatory reporting schedules also remained unchanged, apart from some consequential revisions resulting from the amendments to the act. Only some small changes to the schedules for some investment categories were introduced in 1939. However, this amendment did not address a problem identified in the insurance press in 1938 regarding the profit and loss account. This concerned the requirement to include the life insurance provision at the beginning and at the end of the year as separate line items in this statement, and, in particular, the requirement that the provision at the beginning of the year should equal the provision presented at the end of the previous financial year. This did not leave any room to directly debit or credit any amounts, as a result of changes in the method or the assumptions, to the free reserves. As the companies believed that such movements in the technical provisions were not part of the ‘normal’ annual results, they wanted to book the amounts directly in the reserves. In practice, the companies achieved this by presenting the additions to or the releases from such reserves as a component of the profit and loss account.

Regarding supervisory developments in practice, C. Dorsman, the managing director of a medium-sized life insurer, provided an overview for the first 12.5 years, summarising the activities of the Insurance Chamber, based on its annual reports. He noted that, at the start, the chamber had contacted over 1,000 organisations to determine the scope of the life insurance business act. At the end of 1925, the first year for which reporting schedules had to be submitted, it was determined that 260 organisations were subject to the provisions of the act. The 1924 annual report of the Insurance Chamber revealed that, at the introduction of the act, the problems were particularly present in the area of funeral funds. At the end of that year, 151 funeral funds were subject to supervision, of which only 46 had been approved.

In the first years, Dorsman continued, the restoration of the Dutch life insurance industry was the main focus of the chamber, resulting in 16 companies being placed under the emergency provisions of the act. Additionally, the chamber provided, during the years 1924 to 1933, in total 84 official recommendations to individual companies, and commented on numerous general developments and practices in its annual reports, for instance on the methods to determine the life insurance provision, the investments in shares, and the movements of and the risks in the market interest rate.

My own analysis of the annual reports of the Insurance Chamber revealed that the emphasis of the application of the emergency provisions was in the first five years. This was also the period in which most of the recommendations were issued, although the financial crisis in the early 1930s triggered a total of 24 of such pronouncements.

---

362 Gales (1986), p. 82.
363 Minister van Justitie (1939), Staatsblad 1939, nr. 245.
364 Verzekeringenblad (1938).
365 See table A9.68.
366 Dorsman (1935).
367 Verzekeringkamer (A1924).
368 Dorsman (1935).
369 Verzekeringkamer (A1923-1933).
The developments in the life insurance supervision did not, however, stop the discussions on a similar system for the non-life insurance business. The debate restarted in 1928 with a series of publications in one of the insurance magazines.\textsuperscript{370} According to the editors, supervision should be applicable to all branches of the non-life insurance business, with the annual accounts based on the 1909 UK assurance companies act.\textsuperscript{371} A different approach was offered in another insurance magazine, which was based on the fact that there was considerable disagreement in the industry on the direction that any form of supervision should take, and on indications it claimed to have received that the government would not initiate legislative action if the industry itself would establish some form of industry-wide system of supervision and control.\textsuperscript{372} The proposed solution was to structure each class of business into a separate industry organisation, complemented with organisations for the insurance brokers and for the employees of insurance companies. Any requirements and regulations would be established on this level, and approved by a council composed of the representatives of all individual organisations.

\textbf{5.4.2.4 The legal developments between 1950 and 1961}

In 1950, a completely revised set of prudential reporting schedules was introduced to update and modernise them.\textsuperscript{373} The new Administrative Decree dropped the former structure, which included separate schedules for different kind of entities. Instead, it introduced one set of schedules, and explained which schedules were applicable for which activity. The new schedules were effective for the year 1950, with some transitional provisions at the discretion of the Insurance Chamber. The overview of all schedules is presented in table A9.74. The previous structure of the schedules was maintained, in which these primary statements were accompanied by notes and a number of schedules providing further details. The Decree still did not require the appointment of an auditor (for the same reasons as before), but ruled that co-signed schedules meant that the presented schedules were correct, and also presented a “juist beeld” (correct view) of the financial position and the results of the insurer. As under the old schedules, mandatory accounting principles were not provided and a description of the applied practices was not required, although, as the description of the actual reporting practices in the next section shows, more and more companies started to disclose their policies on a voluntary basis. The subsequent articles of van Haften do not even mention a debate on the issue. Therefore, I can only conclude that there was, at the time, no focus at all on these important disclosures, for reasons unknown.

The 1950 models for the balance sheet and the profit and loss account are presented hereafter.

\textsuperscript{370} Het Vakblad (1928).
\textsuperscript{371} See section 4.4.1.3.
\textsuperscript{372} Zonneschijn (1935).
\textsuperscript{373} Minister van Justitie (1950), Staatsblad 1950, nr. K 545.
Table 5.7: Life insurance business act of 1922 – balance sheet in accordance with the 1950 models - assets

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital/guarantee capital unpaid</td>
<td>(schedule 6)</td>
</tr>
<tr>
<td>Invested statutory reserve</td>
<td></td>
</tr>
<tr>
<td>Invested extra reserve</td>
<td></td>
</tr>
<tr>
<td>Invested pension fund and/or staff fund</td>
<td></td>
</tr>
<tr>
<td>Investments of the annual funds (schedules 3a, and 7 to 11a)</td>
<td></td>
</tr>
<tr>
<td>Land and buildings (schedules group 7)</td>
<td></td>
</tr>
<tr>
<td>Loans guaranteed by mortgages (schedules group 8)</td>
<td></td>
</tr>
<tr>
<td>Securities (schedules group 9)</td>
<td></td>
</tr>
<tr>
<td>Private loans (schedules group 10)</td>
<td></td>
</tr>
<tr>
<td>Policy loans and advances (on policies issued by the company)</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
</tr>
<tr>
<td>Cash deposits with insurers in respect of the life insurance provision (schedule 5)</td>
<td></td>
</tr>
<tr>
<td>Interest-bearing balances</td>
<td></td>
</tr>
<tr>
<td>With monetary institutions</td>
<td></td>
</tr>
<tr>
<td>With other institutions</td>
<td></td>
</tr>
<tr>
<td>Other investments (schedules group 11)</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>Non-interest-bearing balances</td>
<td></td>
</tr>
<tr>
<td>With monetary institutions</td>
<td></td>
</tr>
<tr>
<td>With other institutions</td>
<td></td>
</tr>
<tr>
<td>Reinsurers’ share in life insurance provision</td>
<td></td>
</tr>
<tr>
<td>Interest, rental and lease income receivable</td>
<td></td>
</tr>
<tr>
<td>Balances</td>
<td></td>
</tr>
<tr>
<td>Balances with agents and office collection</td>
<td></td>
</tr>
<tr>
<td>Balances with insurers in respect of life insurance</td>
<td></td>
</tr>
<tr>
<td>Balances with other institutions in respect of group contracts</td>
<td></td>
</tr>
<tr>
<td>Administration fees receivable (schedule 4a)</td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td></td>
</tr>
<tr>
<td>Printed matters and office supplies</td>
<td></td>
</tr>
<tr>
<td>Office and transportation equipment</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous debtors and other assets</td>
<td></td>
</tr>
<tr>
<td>Incorporation/expansion cost</td>
<td></td>
</tr>
<tr>
<td>Net loss for the year</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.75.
Table 5.8: Life insurance business act of 1922 – balance sheet in accordance with the 1950 models - liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory capital/guarantee capital</td>
</tr>
<tr>
<td>Of which not issued</td>
</tr>
<tr>
<td>Reserves</td>
</tr>
<tr>
<td>Statutory reserve</td>
</tr>
<tr>
<td>Extra reserve</td>
</tr>
<tr>
<td>Investment reserve</td>
</tr>
<tr>
<td>Other reserves, to be specified</td>
</tr>
<tr>
<td>Saving balances of the annual funds (schedule 3a)</td>
</tr>
<tr>
<td>Life insurance provision (schedules 15 and 16)</td>
</tr>
<tr>
<td>Life insurance provision for own account</td>
</tr>
<tr>
<td>Reinsurers’ share in life insurance provision</td>
</tr>
<tr>
<td>Provision for administrative expenses (schedule 15)</td>
</tr>
<tr>
<td>Provision for administration fees receivable (schedule 4a)</td>
</tr>
<tr>
<td>Pension fund and/or staff fund</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>Loans guaranteed by mortgages</td>
</tr>
<tr>
<td>Balances with monetary institutions</td>
</tr>
<tr>
<td>Other loans without special collateral</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>Balances with agents and office collection</td>
</tr>
<tr>
<td>Balances with insurers in respect of life insurance</td>
</tr>
<tr>
<td>Balances with other institutions in respect of group contracts</td>
</tr>
<tr>
<td>Unpaid claims and surrenders</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Source: table A9.76.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash deposited by insurers in respect of the life insurance provision (schedule 5)</td>
</tr>
<tr>
<td>Interest, rental and lease charges payable</td>
</tr>
<tr>
<td>Balances</td>
</tr>
<tr>
<td>Balances with agents and office collection</td>
</tr>
<tr>
<td>Balances with insurers in respect of life insurance</td>
</tr>
<tr>
<td>Balances with other institutions in respect of group contracts</td>
</tr>
<tr>
<td>Miscellaneous creditors and other liabilities</td>
</tr>
<tr>
<td>Dividends, profit participation and bonuses of the financial year</td>
</tr>
<tr>
<td>Unallocated profit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
</tr>
</thead>
</table>

Table 5.9: Life insurance business act of 1922 – loss and profit account in accordance with the 1950 models

<table>
<thead>
<tr>
<th>Charges</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative balance of the previous year</td>
<td></td>
</tr>
<tr>
<td>Increase of the life insurance provision for own account</td>
<td></td>
</tr>
<tr>
<td>Increase of the provision for administrative expenses of the annual funds</td>
<td></td>
</tr>
<tr>
<td>Claims for own account</td>
<td></td>
</tr>
<tr>
<td>Surrenders for own account</td>
<td></td>
</tr>
<tr>
<td>Expenses for own account</td>
<td></td>
</tr>
<tr>
<td>Losses on and depreciation of investments, to be specified according to the balance sheet items</td>
<td></td>
</tr>
<tr>
<td>Foreign currency losses (not related to securities)</td>
<td></td>
</tr>
<tr>
<td>Other charges, to be specified</td>
<td></td>
</tr>
<tr>
<td>Increase of the provision for administration fees receivable</td>
<td></td>
</tr>
<tr>
<td>Depreciation, to be specified</td>
<td></td>
</tr>
<tr>
<td>Credited to reserves, to be specified</td>
<td></td>
</tr>
<tr>
<td>Balance, to be appropriated in accordance with the articles of association, with a specification of the remainder</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Undivided profit of the previous year</td>
<td></td>
</tr>
<tr>
<td>Decrease of the life insurance provision for own account</td>
<td></td>
</tr>
<tr>
<td>Decrease of the provision for administrative expenses of the annual funds</td>
<td></td>
</tr>
<tr>
<td><strong>Premiums</strong></td>
<td></td>
</tr>
<tr>
<td>Regular premiums, split into gross amount, reinsurance amount, and amount for own account</td>
<td></td>
</tr>
<tr>
<td>Single premiums, split into gross amount, reinsurance amount, and amount for own account</td>
<td></td>
</tr>
<tr>
<td>Administration fees of the annual funds</td>
<td></td>
</tr>
<tr>
<td>Initial administration fees (schedule 4a)</td>
<td></td>
</tr>
<tr>
<td>Ongoing administration fees</td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
</tr>
<tr>
<td>Returns on land and buildings</td>
<td></td>
</tr>
<tr>
<td>Gross income</td>
<td></td>
</tr>
<tr>
<td>Exploitation expenses</td>
<td></td>
</tr>
<tr>
<td>Gains on and appreciation of investments, to be specified according to the balance sheet items</td>
<td></td>
</tr>
<tr>
<td>Foreign currency gains (not related to securities)</td>
<td></td>
</tr>
<tr>
<td>Decrease of the provision for administration fees receivable</td>
<td></td>
</tr>
<tr>
<td>Debited to reserves, to be specified</td>
<td></td>
</tr>
<tr>
<td>Other income, to be specified</td>
<td></td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.77.

The instructions to the 1950 schedules were similar to those of the 1925 schedules, with one exception: from 1950 onwards, it was explicitly allowed to add schedules, if they were clearly marked as ‘non-mandatory’.

Van Haaften explained that under the old regime some companies published abbreviated schedules in their annual accounts, without mentioning so.\(^{374}\) The new Administrative Decree made such a practice legally possible, but only under the condition that such amended or condensed schedules should specifically state that this had been done, informing the public on the status of the schedules. Furthermore, compared to the old schedules, a number of details previously included in the balance sheet or in the profit and loss account were moved to the notes or to separate schedules.\(^{375}\)

Examples were the breakdown of the expenses and of the other investments.

---

\(^{374}\) van Haaften (1951a).

\(^{375}\) van Haaften (1951b).
According to van Haaften, the sequence of the first two schedules had also been reversed, to align with the normal practice in the annual accounts to present the balance sheet first, and the profit and loss account second. He also noted that, although the separate balance sheet line regarding the subsidiaries was deleted, all participations above 25% had to be disclosed. Additionally, movement schedules were introduced for all investments, separately showing the unrealised and realised gains and losses, although a mandatory overview of the accounting policies were still absent. Finally, it had been decided to present the reinsurer’s share in the life insurance provision as an asset instead of a deduction from the gross provision, since this better reflected the nature of the item and avoided confusion.

Regarding the profit and loss account, van Haaften first commented on the change of the name of this schedule into the loss and profit account. He noted that, under the previous name (profit and loss account), the readers expected to see the income items on the left side of the schedule, while this was not the case. The change was, therefore, made to take such a confusion away and to align the terminology with the contemporary customary practice. He also noted that the former inclusion of the opening and closing balances of the life insurance provision in the profit and loss account had been replaced by line items focusing on the increase or decrease of this balance, as had been recommended in the technical literature already for a long time. The critical comments in the literature were also the background of the introduction of two new lines, focusing on the additions to or the releases from the reserves, to accommodate the accounting policies under which certain items were directly accounted for in such reserves, but the total changes in the life insurance provision had to be reported in the profit and loss account. Finally, certain details on the claims were now reported in the notes.

Regarding the sundry investments, the 1950 models introduced a new schedule, specifying which items should be included in this balance sheet line. This had not been the case in the past. This new schedule addressed a problem, noted by the Insurance Chamber in its 1946 annual accounts, which related to the classification of certain government loans: at the time, some companies reported these under the debt securities, and others under the sundry investments. In 1948, the chamber had already ruled that all such items should be included in the sundry investments, resulting in a large shift between the two investment categories. This was confirmed in the new models, as a result of which, at the end of 1950, the sundry investments consisted almost completely of different types of government loans, and the other investments included the deposits at banks, the deposits with insurers, and the interest-bearing balances.

---

376 van Haaften (1951c).
377 van Haaften (1951d).
378 A discussion in an accounting magazine showed, however, that there was room for debate about this ‘customary’ practice. The views differed, and the explanations for the preferred terminology varied. Furthermore, the debate focused on the (non-)compliance with the terminology in the commercial code. See Porrey (1951), Brands (1952), and Diephuis (1952). In this dissertation, I continue to use the term ‘profit and loss account’ for consistency reasons.
379 van Haaften (1953).
380 Verzekeringskamer (A1946).
381 Verzekeringskamer (A1948).
382 Verzekeringskamer (A1950).
In 1955, the Insurance Chamber issued a circular regarding the pension schemes for the staff of life insurance companies. According to the ‘Pensioen- en spaarfondsenwet’ (henceforth, the ‘pensions and saving funds act’), adopted in 1952, such schemes had to be covered by an industry pension fund, a company pension fund, or a life insurance company. Since it was legally impossible for a life insurance company to conclude an insurance contract with itself, formally such pension schemes would have to be ‘outsourced’ to a competitor. The circular clarified that it would be possible to obtain a derogation from this requirement, enabling life insurers to conclude a group life insurance contract covering the pension schemes of its own staff.

The only relevant change to the life insurance business act and its Administrative Decrees in the period occurred in 1961, when a change in the reporting schedules was introduced in respect of the loans guaranteed by mortgages. The intention of the Insurance Chamber to introduce a separate schedule for the participating interests, announced in 1956 in response to the growing importance of this investment category, was not yet implemented at the end of the period reviewed in this chapter. The same applied to the intended expansion of the information regarding equity-linked investments, introduced on the Dutch market in the mid-1950s. The Insurance Chamber announced that it considered it undesirable to mix equity-linked insurance business with ordinary life insurance business. And the announcement by the NVBL, early 1966, that this type of business would be offered more widely triggered the chamber to announce separate schedules. In the meantime, additional information would be requested in the notes to the balance sheet and to the profit and loss account.

5.4.2.5 The initial steps in respect of solvency requirements
As is described in the next chapter, before 1987 the Dutch legislation did not include specific solvency requirements for life insurers. However, the Insurance Chamber noted in 1937 that the large volatility in the value of the investments made it very desirable that the companies established an investment reserve or an extra reserve to absorb these fluctuations, and it observed in 1940 an increasing level of investments in land and buildings, stating that this required increased extra reserves. In my view, this means that the Insurance Chamber had, at the time, already developed some kind of solvency assessment, although its methods and norms were never published.

Regarding solvency information, one of the first publications found in the Dutch literature was the dissertation of J. Visser, issued in 1953. He noted that the general approach to assess the financial strength of a life insurance company was to compare the level of equity with the life insurance provision, but that this was complicated by the secret and undisclosed reserves in both the assets and the liabilities.

---
384 Minister van Justitie (1952b), Staatsblad 1952, nr. 275.
385 Minister van Justitie (1961), Staatsblad 1961, nr. 347.
386 Verzekeringkamer (A1956).
387 Verzekeringkamer (A1955).
388 Verzekeringkamer (L1965). The NVBL was the Dutch life insurers’ organisation, see section 4.4.3.4.
389 See sections 6.6.4 for non-life insurers and 6.6.7 for life insurers.
390 Verzekeringkamer (A1937 and Verzekeringkamer (A1940).
In Visser’s view, the only way to solve the problem was to look at the profitability of the life insurers, using the detailed profit and loss accounts proposed by Olie, Grootenboer, and, already in the 1920s, by Havik.\(^392\) The proposals of Olie and Grootenboer are described later in this chapter in the section on the actual reporting practices.

Visser’s proposal was, shortly after, discussed by C. Campagne, a member of the Insurance Chamber.\(^393\) Since the assessment of the solvency situation of a company focused on the ability to meet its obligations, he rejected an approach which was not based on the balance sheet. However, he concurred that, as a first step, all assets should be measured on a present value basis, to synchronise the measurement approach for the assets and the life insurance provision. But it was not necessary, in his view, to eliminate all secret and undisclosed reserves in this provision: it was possible to develop a norm, based on the prudently calculated life insurance provision. Based on the experience of the Insurance Chamber in the first 25 years of its existence, he recommended this norm to be 5%. In other words, the sum of the capital and the extra reserves should, as a minimum, amount to 5% of the life insurance provision. This was, to my knowledge, the first time that (a member of) the Insurance Chamber revealed the norms it applied to assess the solvency position of a life insurers, although such norms were not based on any available legislation. Whether or not these norms included adjustments to the figures in the prudential returns (in the form of prudential filters), is unknown.

The actual solvency situation in the beginning of the 1950s was presented by Hommes.\(^394\) After having noted that it was not possible to provide a figure for the life insurance industry as a whole, as a result of the variation in the measurement approaches for the investments and the secret and undisclosed reserves therein, he showed that it was possible, for everyone with sufficient knowledge of the insurance industry, to eliminate such reserves using the prudential statements of individual companies. This could be done since these statements were publicly available, and included sufficient disclosures to make the necessary adjustments. For the ten largest companies, representing about two-thirds of the industry, such adjustments would increase the solvency percentage, as defined above by Campagne, from 4.6% to 6.1% at the end of 1952. In my opinion, this article shows that the debate on secret and undisclosed reserves, described earlier in the section on the Dutch financial reporting developments, was not relevant in respect of the investments of Dutch life insurers.

The overview in this section shows that the Dutch Insurance Chamber already focused on the solvency position of life insurers before this occurred in the UK, where, as is described in the section presenting the UK prudential reporting developments, solvency requirements related to the size of the company were only legally introduced in 1958. It also shows that the interest in the topic increased in the early 1950s, when several attempts were made to measure the actual and required solvency margins of Dutch life insurers. As is noted, it would, however, not be until the 1980s before this resulted in legal requirements.

\(^{392}\) Ibid, p. 97-105.

\(^{393}\) Campagne (1953b).

\(^{394}\) Hommes (1954).
The non-life insurance business act of 1964 and the developments until 1970

Initially, insurance supervision in the Netherlands applied only to the life insurance companies. However, during the Second World War the German occupation government decided to expand the supervisory scope and ordered the mutual insurance companies carrying on fire insurance, burglary insurance, theft insurance, water pipeline damage insurance, or storm insurance business, to report themselves to the Insurance Chamber. At the end of 1942, a total of 313 such companies had done so, mainly involved in fire insurance business, and an advisory committee was appointed to develop model prudential returns. However, in 1943 it became clear to the Insurance Chamber that the German occupation government was not just protecting the general interest, but that it had specific additional objectives. The intention of the new supervisory legislation was also to enforce a number of mergers and amalgamations, and to stimulate reinsurance with German companies. To counter these developments, the Insurance Chamber decided to limit its supervisory activities to the maximum extent possible, and only focused on those cases where improvements were necessary in the areas of the investment policies, the reserving policies, the reinsurance arrangements, and the texts of the articles of association or the policy conditions. At the end of 1943, 322 companies were under the scope of the new supervisory acts. They were repealed after the war, restoring the old situation under which the non-life insurance companies were not supervised at all.

The first serious government initiative in respect of developing a supervisory regime for the non-life insurance companies was mentioned during the parliamentary discussions on the ‘Wet assurantiebemiddeling’ (the ‘insurance brokerage act’) at the end of the 1940s. The Minister of Justice reported that he had installed an advisory committee on the topic on 22 June 1945, which had submitted its report on 30 September 1949. Van Beek noted that the Minister had subsequently drafted a bill, based on the recommendations of this committee. As a result of the subsequent discussions in the committee on this bill, the draft was changed, and submitted for official comments again. On this final draft, the committee reported on 26 June 1956.

However, it would take the government until October 1961 to submit a bill to the Second Chamber. According to the Verzekeringskroniek, this delay was caused by the fact that the work of the Insurance Chamber had already been expanded considerably by its supervisory responsibilities regarding pension funds: there was simply a lack of capacity to deal with non-life insurance companies as well.

395 Verzekeringskamer (A1942).
396 Verzekeringskamer (A1943).
397 Tweede Kamer (1948), nr. 870.
398 This was the ‘Adviescommissie voor het schadeverzekeringsbedrijf’, chaired by the lawyer J.W. Gratama. He was one of the managing directors of the Holland van 1859, which, as is described earlier (see section 3.3.2), later became part of Fortis. The reports of the committee could not be retrieved from the archives. The same applies to the government bills, drafted based on these reports.
400 Tweede Kamer (1961), nr. 6545.
401 Verzekeringskroniek (1961). In respect of this expansion, I have found no evidence or indications that this had a (in)direct impact on the supervision or prudential reporting requirements of insurance companies.
The explanatory memorandum to the bill noted that the legislative action was required to protect the policyholders of the non-life insurers, after the bankruptcies of some of the larger companies in recent years: the ‘Nationale Unie van 1945’ in 1954, the ‘Stichting Ziekenhuisverpleging A.Z.R.’ in 1959, and the ‘Assurantiemaatschappij “Brandaris”’ in early 1961.\(^\text{402}\)

This bill was drafted in close consultation with the advisory committee, and was based on the same approach as the life insurance business act, requiring an insurer to be licensed, to submit annual returns to the Insurance Chamber, and to make these returns available to the public. But the bill included more, to deal with the differences between the life and the non-life insurance companies:

- In case a non-life insurer was obliged to pay periodical claims, it had to deposit at a bank account at least the present value of those claims, which had to be calculated in accordance with assumptions approved by the Insurance Chamber;
- Regarding the capital requirements, domestic and foreign companies required a minimum issued capital of NLG 1 million, of which at least ten per cent was paid-in. The Minister could decrease this amount for certain (groups of) companies. This requirement was not applicable to the companies incorporated before 1 January 1961;
- The companies needed a guarantee capital of at least 10% of the gross premiums of the previous year, with the same transitional provision for existing companies. By Administrative Decree, this percentage could be increased for certain groups of companies, and an absolute minimum amount could be determined. In case an insurer knew of could reasonably know it would not meet these requirements, it should inform the Insurance Chamber. These requirements can, in my view, be considered as the first legal solvency requirements for Dutch insurers;
- The Minister could issue a statement, ruling that any sister companies or subsidiaries of an insurer could be considered as one group for the purpose of the requirements on the issued capital and guarantee capital, and for the annual submission of the mandatory reporting schedules to the Insurance Chamber;
- The recommendation of the Insurance Chamber could concern both existing and future insurance contracts. This meant that it could take action against any onerous policy conditions and management actions, in the interest of the (future) policyholders; and
- An Administrative Decree would determine which prudential returns should be included in the annual accounts, to be made available, at request, to all policyholders.

The bill did not raise major discussions in Parliament. The main debate focused on the authority of the Insurance Chamber to make recommendations for the future. Although they ultimately agreed, most members of Parliament considered this to be at the edge of a supervisory system that claimed not to interfere with the management decisions. During this debate, the Minister made it clear that, under the proposed bill, the Insurance Chamber could issue general guidelines and directives, but that these pronouncements could not be enforced, since this possibility was not included in the legislation. The bill was, virtually unchanged, adopted by the Second Chamber on 27 Mei 1964.\(^\text{403}\) The First Chamber followed on 22 September 1964.\(^\text{404}\)

\(^{402}\) According to comments made during the parliamentary discussions on the bill, the fall of the Brandaris was caused by a policy of (too) rapid expansion during the years 1960 and 1961.

\(^{403}\) Tweede Kamer (1964), Handelingen 27 mei 1964.

The new act was published at the end of November of the same year.\textsuperscript{405} Its effective date was 1 September 1966.\textsuperscript{406} By Administrative Decree, certain classes of business or small mutual insurance companies could be exempted from the full supervision. In contrast to the life insurance business act, the non-life insurance business act required the appointment of an auditor, which had been made possible after the adoption of the registered auditors act in 1962, described earlier as part of the Dutch financial reporting developments. The explanatory memorandum noted that the mandatory appointment was to increase the efficiency of the supervision. The topic was not discussed in Parliament, and there was no explanation why such a requirement was not introduced in the life insurance business act as well.

With the adoption of the act, the Netherlands had finally aligned its scope of insurance supervision with that of the UK and the US. However, in contrast to these two countries, legal and formal solvency requirements for life insurers were still absent, although, as is described earlier in this section, the interest in the topic had started to increase.

The non-life insurance business act amended the 1929 commercial code, now stating that both life and non-life insurers were, for the preparation of their balance sheet, subject exclusively to their insurance supervisory acts. In other words, all insurers were now legally required to apply a type 1 single-track reporting approach.

The bill and the parliamentary discussions had not triggered much debate in the industry. Already very soon after the publication of the bill, the Dutch Union of Non-life insurers published in 1961 a statement noting its support for the bill.\textsuperscript{407} However, it did request the fiscal system for non-life insurance companies, which provided for the possibility to establish an equalisation reserve, to be maintained and not changed, as was proposed in the reform of the Dutch corporate tax system, described in the beginning of this chapter. The union had been created in 1951 out of several non-life insurance industry organisations.\textsuperscript{408}

According to the Insurance Chamber, over 1,300 non-life insurance companies notified the chamber of their existence after the act became effective. The following table shows the composition of this group and how the ultimate number of fully supervised companies was derived.

\textsuperscript{405} Minister van Justitie (1964b), Staatsblad 1964, nr. 409.
\textsuperscript{406} Minister van Justitie (1966b), Staatsblad 1966, nr. 360.
\textsuperscript{407} VVP (1961).
\textsuperscript{408} Langenhuyzen (1998b), p. 739.
Table 5.10: Overview of supervised non-life insurance companies at 1 November 1968

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of notifications received</td>
<td>922</td>
<td>305</td>
</tr>
<tr>
<td>Of which were unjustified</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>912</td>
<td>305</td>
</tr>
<tr>
<td>Decrease as a result of portfolio transfers</td>
<td>76</td>
<td>74</td>
</tr>
<tr>
<td>Decrease as a result of policy cancellations by policyholders</td>
<td>39</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>115</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td>797</td>
<td>228</td>
</tr>
<tr>
<td>Exempted because the only business was transport insurance</td>
<td>44</td>
<td>82</td>
</tr>
<tr>
<td>Exempted very small mutual insurance companies</td>
<td>155</td>
<td>-</td>
</tr>
<tr>
<td>Exempted small mutual insurance companies</td>
<td>202</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>401</td>
<td>82</td>
</tr>
<tr>
<td>Fully supervised non-life insurance companies</td>
<td>396</td>
<td>146</td>
</tr>
</tbody>
</table>

Source: Verzekeringskamer (S1967).

In respect of the legal possibility to treat several non-life insurers as one group, the Insurance Chamber reported in 1972 that 19 groups, including the several predecessors of AEGON and ING, had received permission to submit their prudential returns on a combined basis. \(^{409}\)

The related Administrative Decree including the models for the prudential returns was issued in February 1967, effective immediately. \(^{410}\) The overview of mandatory schedules is included in table A9.80. It specifically identifies those schedules that had to be included in and those that had to be excluded from the annual accounts. The explanatory memorandum to the act explained that, in contrast to the requirements for life insurance companies, it had been decided to make certain data of a non-life insurer, such as its reinsurance policy, only available to the Insurance Chamber, as publishing such information could hinder or limit the business operations of the company.

The Decree did not include the full set of schedules and I have not been able to retrieve it from any archive or library I have visited. For this reason, the formats of the balance sheet and the loss and profit account presented in annex 9 are derived from actual schedules included in the accounts of the reviewed companies. As for life insurance companies, the other schedules included the notes to these primary statements and a number of details on the investments and the technical provisions. The reporting schedules showed many similarities with the life insurance schedules, although the information regarding the technical provisions and results was different, based on the different risks in both lines of business and not all schedules were publicly available. The Decree was accompanied by another Decree, providing the details on the claims to be included in the provision for periodical claims (for instance, the exclusion of employee pensions). \(^{411}\) The models for the balance sheet and the profit and loss account are presented hereafter.

\(^{409}\) Verzekeringskamer (S1971).

\(^{410}\) Minister van Justitie (1967b), Staatsblad 1967, nr. 111.

\(^{411}\) Minister van Justitie (1967c), Staatsblad 1967, nr. 112.
Table 5.11: Non-life insurance business act of 1964 – balance sheet in accordance with the 1967 models

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital unpaid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guarantee fund unpaid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and buildings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans guaranteed by mortgages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guarantee loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participating interests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables on participating interests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and giro account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables on members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agents and proxies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other debtors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest, rental and lease income receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incorporation/expansion cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss for the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital called</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guarantee fund called</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrance deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statutory reserve</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guarantee loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other debts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to participating interests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for unearned premiums own account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for claims outstanding own account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marine and aviation fund own account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agents and proxies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other creditors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit participation for the financial year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unallocated profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.81.
Table 5.12: Non-life insurance business act of 1964 – profit and loss account in accordance with the 1967 models – charges

<table>
<thead>
<tr>
<th>Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire insurance</td>
</tr>
<tr>
<td>Reinsurance premiums</td>
</tr>
<tr>
<td>Contributions to reinsurers</td>
</tr>
<tr>
<td>Increase of the provision for unearned premiums own account</td>
</tr>
<tr>
<td>Increase of the provision for claims outstanding own account</td>
</tr>
<tr>
<td>Claims</td>
</tr>
<tr>
<td>Commissions</td>
</tr>
<tr>
<td>Sundry charges</td>
</tr>
<tr>
<td>Sickness and accident insurance</td>
</tr>
<tr>
<td>Reinsurance premiums</td>
</tr>
<tr>
<td>Contributions to reinsurers</td>
</tr>
<tr>
<td>Increase of the provision for unearned premiums own account</td>
</tr>
<tr>
<td>Increase of the provision for claims outstanding own account</td>
</tr>
<tr>
<td>Claims</td>
</tr>
<tr>
<td>Commissions</td>
</tr>
<tr>
<td>Sundry charges</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Miscellaneous insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinsurance premiums</td>
</tr>
<tr>
<td>Contributions to reinsurers</td>
</tr>
<tr>
<td>Increase of the provision for unearned premiums own account</td>
</tr>
<tr>
<td>Increase of the provision for claims outstanding own account</td>
</tr>
<tr>
<td>Claims</td>
</tr>
<tr>
<td>Commissions</td>
</tr>
<tr>
<td>Sundry charges</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Marine and aviation insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinsurance premiums</td>
</tr>
<tr>
<td>Increase of the marine and aviation fund own account</td>
</tr>
<tr>
<td>Claims</td>
</tr>
<tr>
<td>Commissions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses on and depreciation of investments</td>
</tr>
<tr>
<td>Other charges</td>
</tr>
<tr>
<td>Unallocated loss for the previous financial year</td>
</tr>
<tr>
<td>Profit for the financial year</td>
</tr>
</tbody>
</table>

Total

Source: table A9.82.
Table 5.13: Non-life insurance business act of 1964 – profit and loss account in accordance with the 1967 models – income

<table>
<thead>
<tr>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire insurance</td>
</tr>
<tr>
<td>Premiums</td>
</tr>
<tr>
<td>Contributions from members</td>
</tr>
<tr>
<td>Decrease of the provision for unearned premiums own account</td>
</tr>
<tr>
<td>Decrease of the provision for claims outstanding own account</td>
</tr>
<tr>
<td>Reinsurers’ share in claims</td>
</tr>
<tr>
<td>Commissions</td>
</tr>
<tr>
<td>Sundry income</td>
</tr>
<tr>
<td>Sickness and accident insurance</td>
</tr>
<tr>
<td>Premiums</td>
</tr>
<tr>
<td>Contributions from members</td>
</tr>
<tr>
<td>Decrease of the provision for unearned premiums own account</td>
</tr>
<tr>
<td>Decrease of the provision for claims outstanding own account</td>
</tr>
<tr>
<td>Reinsurers’ share in claims</td>
</tr>
<tr>
<td>Commissions</td>
</tr>
<tr>
<td>Sundry income</td>
</tr>
<tr>
<td>Miscellaneous insurance</td>
</tr>
<tr>
<td>Premiums</td>
</tr>
<tr>
<td>Decrease of the provision for unearned premiums own account</td>
</tr>
<tr>
<td>Decrease of the provision for claims outstanding own account</td>
</tr>
<tr>
<td>Reinsurers’ share in claims</td>
</tr>
<tr>
<td>Commissions</td>
</tr>
<tr>
<td>Sundry income</td>
</tr>
<tr>
<td>Marine and aviation insurance</td>
</tr>
<tr>
<td>Premiums</td>
</tr>
<tr>
<td>Decrease of the marine and aviation fund own account</td>
</tr>
<tr>
<td>Reinsurers’ share in claims</td>
</tr>
<tr>
<td>Commissions</td>
</tr>
<tr>
<td>Sundry income</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Gains on and appreciation of investments</td>
</tr>
<tr>
<td>Other income</td>
</tr>
<tr>
<td>Undistributed profit for the previous financial year</td>
</tr>
<tr>
<td>Net loss for the financial year</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: table A9.83.

Because of the unavailability of the full set of schedules and the accompanying instructions, I have not been able to assess whether these instructions were similar to those of the 1950 schedules for life insurers. However, based on my review of the financial statements of the selected companies and my experience as a former auditor of Dutch insurance companies, I firmly believe that this was the case. As a result, also non-life insurers were not permitted, unless this was explicitly required or allowed, to add line items to the balance sheet and the profit and loss account. On the other hand, my findings on the review of the actual financial statements show that all companies, after the introduction of the mandatory reporting schedules, provided comparative amounts in their primary financial statements. I find it therefore reasonable to assume that, in contrast to life insurers, non-life insurers were required to do so.
Summary and conclusions

The description in this section presents the events after the adoption of the life insurance business act in 1922. It discusses the establishment and the powers of the Insurance Chamber as the supervisory authority, and the scope and transitional provisions of the act. Subsequently, it presents an overview of the Administrative Decrees issued under the act, with a particular focus on the annual reporting schedules that the life insurer had to submit to the chamber and make available to the public. Subsequently, both the act and the Decrees were never amended fundamentally during the period reviewed in this chapter. Even the new reporting schedules issued in 1950 did not introduce any major changes in its contents, compared to the past. Furthermore, the approach that the schedules also served as the financial statements was maintained as well.

Another important step in respect of insurance supervision occurred in 1964 with the adoption of the non-life insurance business act, introducing prudential reporting requirements for non-life insurers. As had been the case for the life insurance industry, the act was a response to the bankruptcy of a number of insurance companies, and concluded a debate of over 40 years. The structure of the non-life insurance business act was similar to the life insurance business act, although it gave the Insurance Chamber some additional supervisory powers. As a result, the act was less based on the ‘freedom with publicity’ approach as was the case for its life insurance counterpart.

In respect of the development of solvency requirements, the description shows that there were some initiatives, and that it was possible, based on publicly available information, to assess the solvency position of a life insurer. However, in contrast to the UK and the US, these developments did not (yet) result in legal requirements for such insurers and, therefore prudential filters were not applicable.

After the adoption of the non-life insurance business act, all Dutch insurers had to apply a type 1 single-track reporting approach. This reporting practice was influenced by the guidance and the recommendations published by the Insurance Chamber in its annual reports, although it, in the period reviewed in this chapter, did not issue separate publications including such guidance and recommendations.

5.5 Reporting in practice

5.5.1 Introduction

The description of the 1929 proposals of the Visser committee, presented earlier in this chapter when discussing the Dutch financial reporting developments, notes that the prudential returns of life insurers under the life insurance business act 1922 served, legally, as their financial statements (a type 1 single-track reporting approach). Under the mandatory models for the balance sheet and the profit and loss account, no diversity was expected. However, since neither the life insurance business act nor the related Administrative Decrees included requirements in respect of the accounting policies, this was an area where diversity could exist, in particular regarding the investments: the debate on the appropriate policies had not yet come to an end. For life insurance provisions, on the other hand, there seemed to be less diversity, because most companies were said to apply the net premium method.
Diversity, both regarding the layouts of the primary statements and the accounting policies, could be expected for non-life insurance companies, since mandatory models were only introduced at the end of the reporting period under the non-life insurance business act 1964. Before, they had to comply with the mandatory list of assets prescribed by the 1929 commercial code, which also applied to public holding companies.

Finally, the descriptions show a trend to improved financial reporting, for instance as a result of a number of private initiatives, but also because of the increasing trend to the publication of consolidated accounts (required, from 1958 onwards, by the Amsterdam Stock Exchange) and the increasing rejection of secret reserves by the auditing profession.

This section discusses the actual reporting developments of the selected companies. As in the previous chapter, it is primarily based on the data extracted from the financial statements, which are presented in annex 13. Where applicable, additional information is derived from other sources. Although some tables in this section of the annex include data subsequent to 1970, these are not discussed in this chapter, but in the next. The financial statements of the holding companies the AGO and the Ennia, both created at the end of the period, are described in the next chapter as well. The description is presented in the context of the comments and debate on reporting developments in the insurance industry, as retrieved from the literature.

The analysis is again organised by individual element of financial reporting selected for review, 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, accompanied by comments in respect of the movement schedules of reserves;
- 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.

As is the case in the previous chapter, the descriptions and analysis of (changes in) accounting policies are included in the discussions of the individual elements. And the summary and conclusions on the actual reporting practices are included in the next (and last) section. Solvency information was not disclosed by any of the reviewed companies, not even on a voluntary basis, although there was a sort of required solvency margin introduced for non-life insurers near the end of the period.

However, before going into the details, it is necessary to remind the reader of the fact that the holding companies of the groups reviewed in this dissertation were not subject to the insurance supervision acts. As a result, their financial statements were not regulated by this legislation, but by the 1929 commercial code.

---

412 See annex A13.3.
But the following descriptions show that, in practice, the holding companies followed, to a large extent, the prudential reporting developments and applied the same accounting principles as their supervised Dutch insurance subsidiaries in their consolidated financial statements. In other words, they applied a type 12 single-track reporting approach.

### 5.5.2 The size of the financial reports

The developments in respect of the size of the financial reports are summarised in the next table. If the number for an individual company was not available for a specific year, the number of the year which was closest is used. As an example, the number of the Verenigde Nillmij presented for 1965 is actually from 1967, the only year in which full financial statements were prepared.

#### Table 5.14 Number of pages of the financial reports in the period 1925-1970

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Algemeene Friesche (L)</td>
<td>129</td>
<td>148</td>
<td>120</td>
<td>108</td>
<td>89</td>
<td>88</td>
<td>108</td>
<td>130</td>
<td>172</td>
<td>136</td>
<td>147</td>
</tr>
<tr>
<td>Algemeene Friesche Brand/Schade (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>15</td>
<td>17</td>
<td>22</td>
</tr>
<tr>
<td>Groot-Noordhollandsche (L)</td>
<td>63</td>
<td>56</td>
<td>70</td>
<td>67</td>
<td>55</td>
<td>78</td>
<td>78</td>
<td>88</td>
<td>123</td>
<td>99</td>
<td>127</td>
</tr>
<tr>
<td>Olieh (L)</td>
<td>84</td>
<td>79</td>
<td>70</td>
<td>64</td>
<td>84</td>
<td>79</td>
<td>112</td>
<td>111</td>
<td>96</td>
<td>108</td>
<td></td>
</tr>
<tr>
<td>Eerste Nederlandsche (L)</td>
<td>107</td>
<td>130</td>
<td>142</td>
<td>151</td>
<td>124</td>
<td>214</td>
<td>179</td>
<td>223</td>
<td>372</td>
<td>207</td>
<td>152</td>
</tr>
<tr>
<td>Nieuwe Eerste Nederlandsche (N-L)</td>
<td>24</td>
<td>24</td>
<td>17</td>
<td>17</td>
<td>11</td>
<td>-</td>
<td>11</td>
<td>13</td>
<td>15</td>
<td>15</td>
<td>47</td>
</tr>
<tr>
<td>Nillmij 1859/Leven (L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>55</td>
<td>105</td>
<td>145</td>
<td>128</td>
<td>135</td>
</tr>
<tr>
<td>Verenigde Nillmij [H]</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMEV (H)</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>16</td>
<td>30</td>
</tr>
<tr>
<td>Utrecht (L)</td>
<td>87</td>
<td>87</td>
<td>97</td>
<td>94</td>
<td>123</td>
<td>127</td>
<td>141</td>
<td>187</td>
<td>251</td>
<td>164</td>
<td>178</td>
</tr>
<tr>
<td>Holland van 1859 (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>24</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nationale (L)</td>
<td>99</td>
<td>110</td>
<td>124</td>
<td>126</td>
<td>88</td>
<td>175</td>
<td>143</td>
<td>221</td>
<td>255</td>
<td>166</td>
<td>198</td>
</tr>
<tr>
<td>Nederlanden Leven (L)</td>
<td>88</td>
<td>123</td>
<td>113</td>
<td>175</td>
<td>108</td>
<td>208</td>
<td>146</td>
<td>252</td>
<td>331</td>
<td>167</td>
<td>160</td>
</tr>
<tr>
<td>Nederlanden van 1845 (N-L)</td>
<td>79</td>
<td>46</td>
<td>27</td>
<td>25</td>
<td>8</td>
<td>-</td>
<td>11</td>
<td>24</td>
<td>32</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nationale-Nederlanden [H]</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>Nationale-Nederlanden combined Dutch non-life insurance companies (N-L)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>76</td>
<td>71</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The table shows that the size of the reports of the life insurance companies (marked ‘L’) was consistently much larger than of the non-life insurance companies (marked ‘N-L’) or the pure holding companies (marked ‘H’). However, concerning the developments in the number of pages of individual companies it is difficult to draw conclusions, since individual companies varied their printing formats considerably over time. For instance, most companies show a decrease in 1945, related to the paper limitations immediately after the Second World War, which was addressed by using a much smaller font than usual. The changes from 1949 to 1950, which was a decrease in size for most life insurers, related to the introduction of the new reporting schedules, which enabled companies to aggregate more details in respect of several investment categories, for instance for loans guaranteed by mortgages. The numbers for the Groot-Noordhollandsche and the Algemeene Friesche exclude the condensed financial statements of the other, which were consistently provided as additional information after the conclusion of their cooperation agreement in 1938.\(^{413}\)

The increase from 1955 to 1960 related to the expansion of the life insurance companies, resulting in more listings of individual investments; the subsequent decrease was caused by the use of much smaller letter types than before. For the non-life insurance companies, the introduction of the models under the non-life insurance business supervision act in 1967 resulted in a considerable increase of the number of pages of the financial reports.

\(^{413}\) See section 3.2.2.
Finally, the increase in size of the financial reports of the AMEV between 1960 and 1965 was caused by its stock exchange listing in 1964.\textsuperscript{414} Until that year, it was a private company under the 1929 commercial code. As a result, its financial reports were not published or filed, but included in the company archive as part of the documents for the annual shareholders' meeting. In preparation for the listing, the company, in 1963, added the balance sheets and profit and loss accounts of its major subsidiaries as annexes to its financial statements. From 1964 onwards, it published consolidated financial statements and disclosed its accounting policies. On the other hand, the size, structure and contents of the financial statements of the Eerste Nederlandsche were not influenced by its listing in 1966.\textsuperscript{415} The same applied for the accounts of the Nillmij, listed in 1969.\textsuperscript{416} The Nationale-Nederlanden published consolidated financial statements from the moment of its listing in 1963.\textsuperscript{417}

\subsection*{5.5.3 The layouts of the primary financial statements}

\subsubsection*{5.5.3.1 The layouts of the balance sheets, the profit and loss accounts, and the cash flow statements}

The balance sheets and the profit and loss accounts were all presented in the T-format, as had been the case on the previous period.\textsuperscript{418} For the life insurers, this was based on the mandatory models under the life insurance business act. The non-life insurers applied this format voluntarily, until they were required to do so under the non-life insurance business act. Finally, the holding companies also used the T-format on a voluntary basis. The joint stock companies continued their practice to present subscribed but not fully paid-in share capital as an asset, based on the mandatory models as well as on the requirements in the 1928 commercial code,\textsuperscript{419} described earlier in this chapter as part of the Dutch financial reporting requirements.

Comparative amounts were not provided by the life insurers in their balance sheets or profit and loss account, but, in accordance with the prudential reporting requirements, in the notes to these schedules. On the other hand, most non-life insurers already provided comparative information in the 1950s, so well before this was required by the non-life insurance business act of 1964. I have not found an explanation for these differences in approach between life and non-life insurers. Finally, the two holding companies the AMEV and the Nationale-Nederlanden presented comparative amounts from the moment that they were listed, compliant with the requirements of the stock exchange.

Consolidated financial statements were not required under the insurance business acts, although the models did allow the inclusion of such schedules as non-mandatory supplements from 1950 onwards. Only the holding companies, once listed, presented such statements.

Regarding the layouts of the balance sheets and the profit and loss accounts, a clear distinction needs to be made between life insurers, non-life insurers, and holding companies. The presentation of investments, technical provisions, long-term employee benefits, taxes, segment information, and business combinations for all types of companies is discussed later in this section.

\begin{flushleft}
\textsuperscript{414} See section 3.3.2.
\textsuperscript{415} See section 3.2.3.
\textsuperscript{416} See section 3.2.3.
\textsuperscript{417} See section 3.4.4.
\textsuperscript{418} See section 4.5.3.1.
\textsuperscript{419} Minister van Justitie (1928a), Staatsblad 1928, nr. 216.
\end{flushleft}
Life insurers

The discussions on the reporting requirements for life insurance companies started again in 1928, when De Polis noted that the presentation requirements under the life insurance business act were overdone.420 It stated that this view was supported by an unnamed managing director of one of the largest life insurers, who recommended a dual system: an extensive set of schedules presented to the Insurance Chamber, combined with a condensed set available to the general public.

Regarding the structure of the profit and loss account, Hommes argued in August 1940 that a proper assessment of the performance of a life insurance company was only possible if it provided “bedrijfsrekeningen” (revenue accounts) per source of income, and presented examples of the contents of such accounts.421 Within one month, he received strong support for this view from Th. Nieuwenhuis Jr., although the latter proposed some changes in the examples of Hommes.422 Regarding this topic, the auditor L.G. van der Hoek also supported this approach shortly after the Second World War and described that the idea was not new: it was already proposed in 1924, when the auditing firms Burgmans, Limperg and Moret issued a report on the draft prudential returns under the life insurance business act.423 He furthermore noted that this idea had, over the years, also been strongly supported by Havik, who was, at the time, the vice-managing director of the Groot-Noordhollandsche, one of the three companies which provided such revenue accounts in practice, as is described in the previous chapter.424

The discussion on the formats of the prudential statements of life insurance companies, which, as is noted above, were also used as the financial statements, revived at the end of the 1940s in a two award-winning articles by the auditor Jac. Olie Jr. and B. Grootenboer, respectively.425 Olie focused on the profit analysis of a life insurer, and argued that an organic profit and loss account, showing the composition of the results in accordance with the basic actuarial assumptions underlying the calculation of the life insurance provision, was lacking in the existing prudential schedules. Such an analysis, where necessary split by line of business, showed the actuarial results on mortality, interest, surrenders, lapses, initial expenses, ongoing expenses, and other sources of income. In his view, this was the only way in which the users of financial statements of life insurers would be able to assess the earnings capacity of such companies.

Olie noted that providing such information was already customary in the US, as it was required in the ‘Convention Blank’, issued by the NAIC, as is described earlier in this chapter when presenting the US prudential reporting developments. The views of Olie were supported by Grootenboer, who, however, suggested much less details in the annual returns, but a higher focus on providing multi-year figures to assess the developments of, in particular, the mortality results over time.

420 De Polis (1928).
421 Hommes (1940).
422 Nieuwenhuis (1940).
423 van der Hoek (1946).
424 See section 4.5.3.1.3. The Groot-Noordhollandsche was one of the predecessors of AEGON (see section 3.2.2).
425 Olie and Grootenboer (1948).
The life insurers reviewed in this dissertation all applied the formats prescribed by the life insurance business act, presented in annex 9. As was required, they adopted a type 1 single-track reporting approach, designating and publishing the prudential returns as the official financial statements, without adding information and prudential filters. Only in some cases, additional lines were added to the balance sheet, but they did not change the structure of the statements. This was done consistently, despite the fact that, as is described earlier as part of the Dutch prudential reporting developments, it was formally not allowed. Apparently, the Insurance Chamber did not object to the inclusion of additional lines in practice. All companies reported unpaid dividends, profit participation and bonuses of the financial year as a separate line item in the balance sheet.

In the profit and loss account, one company added a separate line showing the release from the extra reserve to strengthen the life insurance provision in the period 1925-1949. The other companies included this item in other income, if applicable. From 1950 onwards, some companies presented, as an additional line item, the increase of the life insurance provision that was charged to the reserves. Other income included the profit shares of policyholders in case they were utilised to increase their insured capital; the total amounts of such shares were always included in the profit appropriation. This occurred on an annual basis and was shown in the profit and loss account.

The presentation of interest rate rebates is described when discussing the technical provisions. The Groot-Noordhollandsche continued to provide, until 1948, a number of supplementary schedules detailing the profit and loss account, described in the previous chapter. In practice, it already applied for a number of years the recommendations of Olie, presented above. The company provided no explanation why it stopped presenting these additional schedules.

Non-life insurers

Regarding non-life insurance companies, van Oostveen noted in 1949 that the formats of the published balance sheets and the profit and loss accounts differed significantly between companies. He also observed that there was still no common understanding of the term ‘reserve’, since it was sometimes used for balance sheet items which were clearly not part of shareholders’ equity, but also for items which were designated for specific purposes within equity. Van Oostveen also reported that non-life insurers generally presented tax as part of the appropriation of profits in the 1940s. And, as far as the insurance activities were concerned, J. van der Plas, an employee of a medium-sized non-life insurer, observed, in 1950, that it was customary practice to include the full amounts of the provisions for unearned premiums and claims outstanding at the beginning and at the end of the year in the profit and loss account, and not just the additions to/releases from these provisions.

Commenting on this and other practices, Olie noted in 1953 that it was, in most cases, impossible to obtain a “duidelijk en volledig” (clear and complete) view of the financial position of a non-life insurer from its financial statements. In his view, the solution should be found in a number of basic rules for the preparation of such statements and in the use of a number of required reporting schedules, which were as much as possible based on those applicable to the life insurers.

---

426 See tables A9.68 to A9.70 for the period 1925-1949, and tables A9.75 to A9.77 for the subsequent years.
427 The contents of these schedules are described in section 4.5.3.1.3.
428 van Oostveen (1949), p. 50 and p. 89.
430 van der Plas (1950), p. 344.
431 Olie (1953).
Olie was supported by Hommes in 1956.\textsuperscript{432} He observed that there was no uniformity, and that the companies published – within the limits of the requirements of the commercial code – only what they wanted. Notes to the balance sheet and the profit and loss account were generally absent, as were the accounting policy descriptions in respect of the investments.

As is described under the Dutch prudential reporting developments, the non-life insurers were not subject to mandatory models until 1967, when the non-life insurance business act became effective. From that moment onwards, all companies applied, as was prescribed, a type 1 single-track reporting approach. Before 1967, the companies had to determine their own layouts. For the balance sheet, the layouts presented by the selected companies were very similar to the models under the life insurance business act, although several companies included additional line items. As a result, the introduction of the 1967 models introduced only limited changes, in particular in respect of the breakdown of current assets and liabilities. The formats of the balance sheets of the non-life insurers reviewed in this dissertation showed, in contrast to the observations of van Oostveen, no major differences, and remained relatively stable over the period described in this chapter. The balance sheets were much more extensive than required under the 1929 commercial code.

This similarity between the selected companies was, however, not the case for the profit and loss account. After 1967, all companies applied the mandatory models, without additional lines. For the Nationale-Nederlanden, this meant combined financial statements for all Dutch non-life insurers. Before 1967, the formats varied between companies and, within one company, over time. This applied to the following items:

- The technical provisions: some companies presented the amounts of the previous year as income and the amount of the reporting year as charges, while others only showed the movements in these provisions. During the period, some companies changed from the first to the second presentation method;
- One company presented the profit of the previous year under charges and under income consistently until 1967; another company reported the reserves of the previous year under income and the reserves at the end of the reporting year under charges for the period 1925-1930; and
- Several companies showed the profit appropriation, which occurred on an annual basis, in the profit and loss account, although not always for all years until 1967. From this year onwards, almost all companies continued this practice, although it was not required under the models of the non-life insurance business act. In one case, the profit appropriation was included, but not presented as such.

Although the financial statements of the Nederlanden van 1845 generally followed a similar structure as applied by the other non-life insurers, they showed two important differences. Firstly, in the period 1930-1935 the amounts of total assets and liabilities of the life insurance subsidiary Nederlanden Leven were included as separate line items in the balance sheet; the same applied to the amounts of total charges and income in the profit and loss account. And, secondly, from 1952 onwards the company produced consolidated financial statements, with the life insurance activities shown as a separate segment in the profit and loss account.

\textsuperscript{432} Hommes (1956).
Hofman noted in 1950 that the Nederlanden van 1845 already produced consolidated statements earlier.\(^433\) This was, however, not confirmed by my review of the actual financial statements. The annual accounts of the company were not impacted by the requirements of the non-life insurance business act, as it was converted into the Nationale-Nederlanden in 1963.

In summary, the considerable differences reported by different authors when they commented on the actual reporting practices of Dutch insurers, concerned, in my view, much more the profit and loss account than the balance sheet.

**Holding companies**

Finally, the two main holding companies, being the AMEV and the Nationale-Nederlanden, presented consolidated financial statements from the moment that they were listed.\(^434\) This was in accordance with the requirements of the Amsterdam Stock Exchange, described earlier when discussing the Dutch financial reporting developments. In the consolidated balance sheet, both companies showed, in order of increasing liquidity, breakdowns and subtotals of the following separate categories: tangible fixed assets, investments, current assets, equity, technical provisions, long-term liabilities, and current liabilities. The layouts showed a number of similarities with the 1950 model under the life insurance business act 1922,\(^435\) but also with the proposals of the Verdam committee,\(^436\) and the model under the 1970 companies’ annual accounts act.\(^437\)

The consolidated profit and loss accounts were not based on these models, and showed information per segment, with the AMEV presenting, from 1964 onwards, full profit and loss accounts per segment and for the group as a whole. The Nationale-Nederlanden applied this practice from 1969 onwards: before, it presented segmented information within the overviews of income and charges. The policyholders’ profit participation was included as a separate charge in the profit and loss account. The profit appropriation was shown outside the profit and loss account. Both companies also included a non-consolidated balance sheet and profit and loss account in their annual accounts.

Before its listing, the AMEV, as a pure holding company, did not publish its annual accounts, as it was not legally required to do so. These accounts included a simple balance sheet in increasing order of liquidity, and a simple profit and loss account by nature, including the profit appropriation.

In summary, the holding companies, related to the similarity of accounting principles described hereafter, applied a type 12 single-track reporting approach.

Cash flow statements or, alternatively, statements of source and application of funds, were not provided by any of the companies reviewed. It should, however, be noted that this was in line with the general reporting practices at the time: even companies listed at the Amsterdam Stock Exchange provided such statements rarely.\(^438\)

---

\(^{433}\) Hofman (1950).

\(^{434}\) Since the financial statements of the third holding company, the Verenigde Nillmij, were published only in 1967, they are not discussed.

\(^{435}\) See tables A9.75 and A9.76.

\(^{436}\) See table A9.78.

\(^{437}\) See table A9.84.

5.5.3.2 The presentation of movement schedules of reserves

As was legally required under the models, all life insurers provided a movement schedule of the reserves for the full period reviewed in this chapter, except for the Utrecht, which did not present it in 1925. In this respect, they were much ahead of other companies, where such requirements were only introduced by the companies’ annual accounts act of 1970. As far as the non-life insurers are concerned, the findings differ: two companies provided the information for the full period, one started in 1950, and another only commenced after the introduction of such requirement in the non-life insurance business act. Regarding the holding companies, the AMEV did not include such schedules in its financial statements before its listing, but did so on a non-consolidated basis afterwards. In contrast, the Nationale-Nederlanden presented the schedules on a consolidated basis.

All companies showed an extra or general reserve in their balance sheets, and more than half an investment reserve. Additionally, several companies presented a separate security reserve. Until the end of the 1930s, several life insurers also showed (mostly small) other reserves, which were subsequently either utilised or abolished. Non-life insurers occasionally included special reserves, for instance for special purposes. However, overall there was a clear trend to limit the reserves to only two categories: the extra reserve and the investment reserve. Because of the mandatory or voluntary disclosures of the profit appropriation, it was now clear which reserves formed part of equity, and which should be considered as provisions. In the 1925 accounts of the Nieuwe Eerste Nederlandsche, the reserve for special purposes was reported at the amount of the beginning of the year in both income and charges. This was different from the method applied to all other reserves. As a consequence, the addition to this reserve in the appropriation of the profit was shown as a separate charge, while additions to other reserves were not separately included in the profit and loss account, but implicitly included as the difference between the opening and closing value of these reserves. The reason for this alternative treatment was not disclosed.

Next to the movements related to transactions with shareholders such as the issuance of (bonus) shares and the profit appropriation, the schedules also showed, for all companies, movements resulting from unrealised and/or realised gains and losses from investments. This is discussed later in this section. They also made it clear that all life insurance companies systematically transferred amounts out of the reserves to the profit and loss account to strengthen the life insurance provision. Some non-life insurers applied, on an incidental basis, a similar practice to strengthen their technical provisions. Furthermore, the movement schedules revealed that companies also used the reserves to account for incidental gains and losses outside the profit and loss account, such as for expansion cost, incorporation costs of subsidiaries, or write-offs of receivables on subsidiaries. Additionally, the reserves were increased or decreased by transfers to provisions for (deferred) tax, long-term employee benefits, or special purposes, and for foreign currency differences. Only one company, the AMEV, reported goodwill as a charge to the reserves. Finally, it could be noted that the majority of the companies recorded the impact of changes in their accounting policies directly in the reserves: only two companies included the impact in the profit and loss account.
5.5.4 The accounting treatment of investments

During the period reviewed in this chapter, the largest investment category was private loans, followed, initially, by loans guaranteed by mortgages, securities, other investments, and land and buildings. The last category developed into the third largest type of investments in the 1960s.

The discussions regarding the appropriate accounting policies for the investments in the Dutch literature focused, in particular, on securities. As Nijst noted, this was in 1925 the second largest investment category, after loans guaranteed by mortgages.\(^439\) He observed that the vast majority of the Dutch life insurers measured these investments at the stock market value combined with an investment reserve, with only 10 (of a total of 66) companies still applying the cost system. However, in respect of land and buildings there was still a wide variety of valuation methods applied.

Measuring the securities at the stock market value raised a number of problems in the beginning of the 1930s, with the outbreak of the economic crisis. A. de Bruyn reviewed the 1931 annual reports of the 33 largest Dutch life insurers, and provided the following statistical averages on the investments in securities:\(^440\)

- They accounted, at the start of the year, for about 32% of total assets. About 80% of this total concerned debt instruments;
- The loss for the year on the securities was about 25% of the starting value, 8% of total assets, and almost 95% of the extra reserves; and
- The loss was covered for almost 25% out of annual profits, for 20% by recalculating the life insurance provision, and for about 55% out of the extra reserves. The reduction of the extra reserves was almost fully attributable to the securities losses. The Insurance Chamber noted in 1931 that the releases from these reserves were sometimes included under other income; however, in most cases the losses were debited on the reserves directly.\(^441\)

According to L.H. van ’t Sant, the first chair of the Insurance Chamber, not even all losses on foreign securities, partially resulting from the decoupling between the English pound sterling and the gold price in September 1931, were included in these statistics: he observed that they were, by a number of companies, ‘absorbed’ by changing the measurement principle from stock exchange value to (amortised) cost.\(^442\)

In 1933, the actuary K. Lindner argued that a system based on (amortised) cost was not appropriate: for debt securities, he advocated a system based on the present values of future cash flows, using the discount rate of the life insurance provision as the interest factor.\(^443\) His main argument was that it neutralised the impact of changes in the market interest rate, which were – in his view – irrelevant to assess the level of profitability of a life insurer. This was, in fact, a similar system as was defended by Turksma in 1904 and Kist in 1909.\(^444\)

\(^{439}\) Nijst (1928).
\(^{440}\) de Bruyn (1933).
\(^{441}\) Verzekeringskamer (A1931).
\(^{442}\) van ’t Sant (1948).
\(^{443}\) Lindner (1933).
\(^{444}\) See section 4.5.4.1.
The assessment of profitability was also raised in 1941 by Hommes, who observed that the customary practice of the large life insurers was to account for the realised and unrealised gains on investments in the reserves, which were also used as the main source to account for any extra additions to the life insurance provisions. This system was, in 1942, defended by van Haaften.\footnote{Hommes (1941).} In his view, all realised gains and losses should be reported directly in the reserves. The same applied to the foreign exchange rate adjustments on the securities, as well as to the impairment losses. Only interest income should be included in the profit and loss account. However, in case of typical exchange transactions, in which debts securities were swapped for similar instruments, it was acceptable to deduct any realised gains from the purchase price of the new securities.

Views on the preferred valuation methods for investments were provided also by de Roy.\footnote{de Roy (1948), p. 139-144.} In respect of land and buildings, he preferred the sales price, which was achievable under normal market conditions. Regarding loans guaranteed by mortgages, he noted that the customary policy of insurance companies was to set the term of these instruments at five years, after which redemption could be demanded. For such loans, he noted that the face value was the adequate measurement basis. For securities, the appropriate basis was, in his view, the stock exchange value.

The debate continued in 1952, when P.J.H.J. Bos et al., a group of authors composed of auditors and actuaries, advocated the valuation of land and buildings at the sales value, shares at the stock exchange value, and debt securities at the redemption value combined with an amortisation of differences between this value and cost over the life time of the instruments.\footnote{Bos et al. (1952).} These views were strongly rejected by C.P.A. Bakker, who argued that the 1933 system of Lindner was much more aligned with the business-economics theory and should, therefore, be applied.\footnote{Bakker (1952).} Immediately after his publication, Bakker was supported by van Haaften in this view.\footnote{van Haaften (1953).}

Regarding the actual practices, however, Visser observed that, at the end of 1952, most life insurers applied the stock exchange valuation method to their securities, although debt securities with a fixed redemption schedule were, generally, not measured above face value.\footnote{Visser (1953), p. 31-33.} The unrealised gains and losses were, in most cases, reported in equity, and the profit and loss account then included realised amounts only: this was the system that is nowadays called ‘recycling’. The system of amortised cost was not applied. Land and buildings were usually reported at cost minus depreciation, but information on the depreciation system was generally not provided. As a result of these methods, Visser argued, the asset valuations included undisclosed reserves, although much less as those included in the life insurance provision. In respect of debt securities which were not guaranteed by the government, the Insurance Chamber noted in 1953 that a reserve should be created in case they were quoted below par.\footnote{Verzekeringskamer (A1953).}
The debate in the literature continued in 1957, when F.L.G. Slooff introduced some sort of compromise regarding accounting for the debt securities. As a first step, he measured the assets at the redemption value: the positive difference between cost and redemption value was credited to an accruals account, named the “waarderingsverschillenrekening” (valuation differences account), which was released to the profit and loss account over the term of the instrument. Any negative differences should be charged immediately to the profit and loss account. In this respect, Slooff was consistent with Bos et al. However, as the second step Slooff introduced an adjustment, driven by the difference between the nominal interest rate of the debt securities and the discount rate of the life insurance provision (in line with the views of Lindner in 1933). Generally, this difference was positive and resulted in an asset. This was called the “contante waarde renteverschillen” (present value of interest differences) and presented as a separate item in the balance sheet. At the same time, the adjustment was seen as a revaluation adjustment of the securities, and, therefore, in the balance sheet, compensated by a designated revaluation reserve called the “renteverschillen-rekening” (interest differences account).

Regarding the actual accounting policies for the investments of the Dutch life insurers in the second half of the 1960s, J.B.J. Bollerman, a member of the management board of the AMEV, provided the following overview:

- Land and buildings were generally valued at cost minus depreciation, resulting, at the end of 1966, in an undisclosed reserve of around NLG 200 million. Depreciation charges were reported in the profit and loss account or debited against reserves. Some companies applying the second method also included a “bedrijfseconomische” (business-economic) depreciation charge in the profit and loss account, which was at the same time credited to the reserves. The purpose of this method was to indicate in the profit and loss account that depreciation charges were economic expenses;
- Regarding the securities, a variety of methods was applied, which resulted, at the end of 1966, in a secret reserve of about NLG 122 million:
  - Debt securities were reported at stock exchange value, face value, cost, or some combination of these methods; and
  - Shares were reported at the lowest of cost or stock exchange value; and
- Loans were reported at face value, with discounts at the acquisition date mostly included under the liabilities, with a subsequent release to the profit and loss account. However, crediting these discounts directly to the reserves was also applied.

In 1988, Hugo Coljé, a former staff member of the DNB, noted that this diversity in accounting policies was not only present in insurance companies: also Dutch banks, before the introduction of the companies’ annual accounts act, showed a variety of accounting policies regarding land and buildings, debt securities, and the methods to determine the necessary provisions for doubtful debtors.
Regarding the reporting practices of the companies reviewed in this dissertation, my findings show that the disclosure of the accounting policies for land and buildings was expanded considerably in the period: only a few companies provided no information before the Second World War. These assets were measured by most companies on a conservative basis: only the Nederlanden van 1845 and its life insurance subsidiary the Nederlanden Leven valued these investments consistently at appraisal value. The Nationale-Nederlanden and the Nationale applied this practice from 1965 onwards.

Before, they reported, as did most of the other companies, land and buildings consistently below appraisal value, if quantified at ratios varying between 80% and 90% of such a value. This method was also, from 1939 onwards, applied by both the Groot-Noordhollandsche and the Algemeene Friesche after the conclusion of their cooperation agreement in 1938. Two non-life insurance companies, as well as the AMEV before 1968, measured their land and buildings at cost minus depreciation. Based on these findings, I cannot support the observations of Bollerman, described above, that land and buildings were generally valued, in the second half of the 1960s, at cost minus depreciation. Finally, starting in the mid-1960s several companies started to apply the system of business-economic depreciation, described above.

The accounting policies for private loans were disclosed by a large majority of the companies (although not consistently over the whole period): they were reported at face value.

Regarding the measurement of shares, practice showed diversity. In the early part of the period, a large majority of companies used the stock exchange value (or, for non-listed shares, estimates of such a value, if the existence of such shares was disclosed). However, subsequently a number of companies introduced limitations to this value: the value at the end of the year was the lowest of the stock exchange value at that date, the book value at the beginning of the year, or the cost of acquired shares during the year. Such a basis was consistently applied by the Nationale and the Nationale-Nederlanden during the whole period. However, most other companies had returned to the system of the full stock exchange value in 1970. A special treatment was applied by the AMEV in the first few years after its listing: the balance sheet showed the stock exchange value of the shares, followed by a visible deduction calculated as the difference between this value and the book value in the financial statements of the consolidated subsidiaries. The annual accounts of the Utrecht revealed that this book value was the lowest of cost and the stock exchanges value at the beginning and at the end of the year.

Practice also varied for debt securities, both between companies and over time. Most companies used a system of stock exchange value limited to face value or redemption value (if applicable), although some initially applied no restrictions. Furthermore, a large number of companies started measuring Dutch government securities at face value in the 1950s. The only company using a different system was the AMEV, which, initially, applied a system similar to shares (with debt securities in the Utrecht measured at the lowest of the stock exchange value and the face/redemption value), but subsequently used cost.

The recognition of unrealised and realised gains and losses on investments showed a level of diversity between companies and over time. Compared to the previous period, there were more companies that disclosed their accounting policies on these items. In most other cases, the policies could be derived from the profit and loss account or the movement schedules of the reserves.

456 See section 3.2.2.
However, for a few companies this information was insufficiently clear to determine, with sufficient certainty, their accounting treatment for parts of the period. On the other hand, it could be noted that the majority of the companies included, for the whole period, all gains and losses in the reserves. In 1970, this was the unanimously applied accounting policy. Before that year, some companies had included realised gains and losses in the profit and loss account, although not consistently over the whole period.

Overall, the diversity in accounting for investments that was observed by several authors and presented above was confirmed by my findings.

In general, the investments included significant undisclosed reserves. This was the result of a deliberate policy, as, for instance, noted by the Utrecht. Its annual report for the year 1947 included the following statement: “Although our valuation of several balance sheet items includes important reserves, we would like to maintain such reserves for contingencies in these items. Additionally, we would like to build up a calamity reserve, which is – in our view – necessary for each life insurance company.” An example was provided in 1954, when the market value of land and buildings appeared to be NLG 58 million, while these investments were still valued at the appraisal value of 1940 of NLG 38 million. The value of securities was also below the realisable value.457 Quantifications of the undisclosed reserves could be made based on the notes to the financial statements, as was demonstrated in an article in Het Verzekeringblad, which reported in 1954 that the ratio between the extra reserve and the life insurance provision of the Utrecht was 3.2% according to the balance sheet, but that, after elimination of all undisclosed reserves in the investments, it increased to 5.75%.458 Similar comments in the insurance press appeared on other companies, such as in the analysis of the 1953 annual accounts of the Nationale, which were also considered to be prepared on a very prudent basis.459

5.5.5 The accounting treatment of technical provisions

**Life insurance provisions**

As is described earlier in chapter 2, the main decisions regarding the life insurance provisions concern the choice of the method and of the discount rate.460 Regarding the choice of the method, Holwerda noted that the debate was effectively a debate about allocating the expenses.461 He observed that there was no consensus about the definitions of the initial expenses or the ongoing expenses, and that, as a result, there was a considerable variety in practice. As long as that debate had not been concluded, any conclusions about the ‘appropriate’ reserving methodology were, in his view, impossible. On the other hand, Nijst reported that the majority of large Dutch life insurers had switched in the 1920s to the net premium method, actually decreasing the variety that existed before.462

458 Verzekeringblad (1954a).
459 Verzekeringblad (1954b).
460 See section 2.8.2.3.
461 Holwerda (1923).
462 Nijst (1928).
This observation did, however, not stop the discussions in the literature. The debate continued in 1948, when de Roy stated his support for the adjusted net premium method and the Zillmer method.\textsuperscript{463} He considered this to be the most elegant way to allocate the expenses over the term of the contract. These views were strongly supported by J.H. Davids, who observed that the very large production of new life insurance contracts in 1947 resulted in a substantial decrease in the net income for the same year.\textsuperscript{464} In his view, this showed that it was absolutely necessary to abolish the widely used net premium method.

In practice, however, this method continued to play a dominant role. Visser noted that, at the end of 1952, more than half of the Dutch life insurers applied it.\textsuperscript{465} Since this group comprised all larger companies, this method could, in his view, be considered as the prevalent method in the Netherlands. According to the lawyer L. Roeleveld, this method was, however, not appropriate for mutual life insurance companies.\textsuperscript{466} He argued in his dissertation, issued in 1955, that the only appropriate method to determine the life insurance provision was the Zillmer method. In such a legal structure, all policyholders were entitled to the profits of the company, and applying the net premium method would give any new policyholders an advantage over the existing policyholders, since the latter had already reimbursed the company for its initial expenses, while this was not yet the case for the first group.

At the end of 1960s, the Amsterdam mathematical professor J.P. van Rooijen observed that the net premium method was still the one which was applied most.\textsuperscript{467} About 80% of the Dutch life insurers used this method; the remaining 20% used the adjusted gross premium method or the Zillmer method with a modest Zillmer-quote.

Because of these approaches, the sharp increase of ongoing expenses, as a result of a high level of inflation, did not cause immediate industry problems, but the continuing and increasing negative result on ongoing expenses since the mid-1950s did indicate, according to van Rooijen, that action was required. This problem of increasing expense levels and the resulting possible need to strengthen the life insurance provisions was also observed by the Insurance Chamber, which had already warned for this development in the beginning of the 1960s, a message that was consistently repeated in subsequent years.\textsuperscript{468} In this context, the chamber noted in 1963 that, in its view, the initial expenses consisted only of the initial commissions and medical fees: all other cost should be regarded as ongoing expenses. In that sense, it provided, after 40 years, an answer to the question that Holwerda had already raised in 1923.

Regarding the interest levels and the discount rate, the figure hereafter presents the developments during the years 1920-1970.

\textsuperscript{463} de Roy (1948), p. 144-145.
\textsuperscript{464} Davids (1948).
\textsuperscript{465} Visser (1953), p. 34.
\textsuperscript{466} Roeleveld (1955), p. 16-17.
\textsuperscript{467} van Rooijen (1969).
\textsuperscript{468} Verzekeringskamer (L1961-1969).
Figure 5.3: Interest rates in the period 1920-1970

The majority of the data can be found in table A8.1. However, the average discount rates for the life insurance provision were not published by the Insurance Chamber before 1935. A review of the publications in the Nederlandsche Almanak voor Levensverzekering showed that between 1923 and 1935 this rate, for most companies, was between 3.5% and 4%. The rates from 1935 onwards are taken from tables A8.26 and A8.33.

The figure shows that the long-term interest rate declined from almost 6% in 1920 to almost 3% in 1950, before it started to climb again to over 7% in 1970. The decline after 1925 was related to the worldwide economic crisis starting at the end of the 1920s and continuing until the mid-1930s. The figure also shows that the average interest income for life insurers was generally higher than the amount required to unwind the discounting of the life insurance provision, although the long-term interest rate and the average discount rate were almost identical in 1945.

However, subsequently the average discount rate did not follow the increase of the interest rates in the 1960s and remained at a level of about 3%. The interest margin, defined as the difference between the average interest income rate and the average discount rate, increased consistently in the 1950s and the 1960s. As is described in the next chapter, this triggered a number of queries in the Dutch Parliament.

Regarding the discount rate, the Insurance Chamber observed that, around 1925, a large majority of companies applied 4%. According to de Goeij, this changed subsequently: in the second half of the 1920s several companies started to decrease this rate from 4% to 3.5%, sometimes by a full recalculation of the provisions, but also by combining a partial recalculation of the provisions combined with the establishment of a ‘reserve for a decrease in interest’.

---

469 Verzekeringskamer (A1929-1935).
470 See section 6.6.6.
471 Verzekeringskamer (A1927).
472 de Goeij (1929).
The result of the decrease of the discount rate and the choice of the method was, according to Kist, that the life insurance provisions at the end of 1931 included considerable undisclosed reserves.\textsuperscript{473} He estimated the interest margin between 0.5\% and 1.75\%, and the unrecognised mortality profit in the range of 15\%-60\% of the calculated mortality rates. For expenses, the differences between the individual companies were of such a size, that it was impossible to give a reliable indication for the industry as a whole. For the same year, de Goeij noted that the impact of the discount factor would result in additional extra reserves of about NLG 9 million, on top of the existing NLG 33 million.\textsuperscript{474} If, additionally, the net premium method was replaced by the Zillmer method (which he supported) using a Zillmer-quote of 2\%, this would create another NLG 28 million of extra reserves. In other words, these reserves would be more than doubled. The Insurance Chamber noted in 1930 that it had no objections against undisclosed reserves, for instance as a result of a prudent calculation of the life insurance provision, but that a policy of secret reserves was not allowed.\textsuperscript{475}

To give an indication of the impact of a change in the discount rate, the auditor R.J. Smit explained that, if the average term of a life insurance product with saving elements was 15 years, a 0.5\% change in the discount rate would create a 5\%-8\% change in the life insurance provision.\textsuperscript{476}

The annual reports of the Insurance Chamber in the second half of the 1930s revealed that the average discount rate continued to decline, with more and more companies applying 3.5\%, which was exactly the average in 1939 and 1940.\textsuperscript{477} According to J.H. van Lingen, this trend continued just after the Second World War, when the life insurance companies started to decrease the discount rate of the life insurance provisions to 3\%.\textsuperscript{478} However, van Oostveen noted that, as a result of the successful government initiatives to keep the long-term interest rate at a level of 3\% in this period, more and more companies decreased their discount rate even to 2.5\%.\textsuperscript{479}

Regarding other parameters than the discount rate, the Insurance Chamber noted in the 1950s that, although the life insurance provisions were sufficient in total, the insurers needed to pay more attention to the mortality developments, in particular the fact that people lived longer than assumed at the moment the insurance contracts were sold.\textsuperscript{480} Subsequently, the insurers started to strengthen their provisions to address this issue.

However, the most fundamental change in the methods to determine the life insurance provisions occurred at the end of the 1960s, under the influence of the new tax regime described in the beginning of this chapter. According to Smit, almost all life insurers applied, from 1969 onwards, the fiscally accepted approach also in their financial statements, under which interest rate rebates were capitalised and amortised in eight years in accordance with a predetermined schedule.\textsuperscript{481}

\textsuperscript{473} Kist (1932).
\textsuperscript{474} de Goeij (1933).
\textsuperscript{475} Verzekeringskamer (A1930).
\textsuperscript{476} Smit (1983).
\textsuperscript{477} Verzekeringskamer (A1939-1940).
\textsuperscript{478} Van Lingen (1947).
\textsuperscript{479} Van Oostveen (1949), p. 109.
\textsuperscript{480} Verzekeringskamer (A1952-1958) and Verzekeringskamer (L1959-1961).
\textsuperscript{481} Smit (1983).
Regarding the companies reviewed in this dissertation, the first observation is that all companies calculated their life insurance provisions on an annual basis. The financial statements revealed that, in line with the industry observations described earlier, almost all companies applied the net premium method: the only exception was the Olveh, which used the Zillmer method with a quote of 2% for its entire portfolio until 1949, and combined this with the net premium method subsequently. The portfolio split over the two methods was not disclosed. A possible explanation for this alternative approach was provided by Roeleveld, who explained that the Zillmer method was more suitable for mutual insurance companies.\footnote{Roeleveld (1955), p. 16-17.} This, however, does not explain the choice for the net premium method by the other two mutuals, being the Algemeene Friesche and the Groot-Noordhollandsche. The Nationale-Nederlanden also applied the net premium method for its domestic portfolio, and used the local accounting rules in its foreign portfolios. The discount rates were, with some exceptions, disclosed and are presented in the following table.

Table 5.15  Actual discount rates to determine the life insurance provisions in the period 1925-1970

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Algemeene Friesche</td>
<td>3.50-</td>
<td>3.88%</td>
<td>3.83%</td>
<td>3.40%</td>
<td>3.21%</td>
<td>3.03%</td>
<td>2.93%</td>
<td>2.99%</td>
<td>2.96%</td>
<td>4.11%</td>
</tr>
<tr>
<td>Groot-Noordhollandsche</td>
<td>3.55%</td>
<td>3.65%</td>
<td>3.51%</td>
<td>3.24%</td>
<td>3.11%</td>
<td>2.95%</td>
<td>2.80%</td>
<td>2.79%</td>
<td>2.84%</td>
<td>3.90%</td>
</tr>
<tr>
<td>Olveh</td>
<td>4.00%</td>
<td>4.00%</td>
<td>3.82%</td>
<td>3.50%</td>
<td>3.20%</td>
<td>3.09%</td>
<td>3.04%</td>
<td>3.07%</td>
<td>3.12%</td>
<td>ND</td>
</tr>
<tr>
<td>Eerste Nederlandsche</td>
<td>3.84%</td>
<td>3.87%</td>
<td>3.85%</td>
<td>3.50%</td>
<td>3.30%</td>
<td>3.09%</td>
<td>3.06%</td>
<td>3.06%</td>
<td>3.13%</td>
<td>ND</td>
</tr>
<tr>
<td>Nillmij 1859/Leven</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.89%</td>
<td>2.87%</td>
<td>2.50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMEV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utrecht</td>
<td>3.50-</td>
<td>3.50%</td>
<td>3.67%</td>
<td>3.48%</td>
<td>3.16%</td>
<td>3.08%</td>
<td>3.02%</td>
<td>3.03%</td>
<td>3.04%</td>
<td>3.29%</td>
</tr>
<tr>
<td>Nationale</td>
<td>Almost 4%</td>
<td>3.80%</td>
<td>3.41%</td>
<td>3.00%</td>
<td>2.89%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.12%</td>
<td></td>
</tr>
<tr>
<td>Nederland Leven</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.25%</td>
<td>2.94%</td>
<td>2.92%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.12%</td>
</tr>
<tr>
<td>Nationale-Nederlanden</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>ND</td>
</tr>
</tbody>
</table>

Sources: The percentages are derived from annex 13. The percentages marked * were not disclosed in the financial statements, but are derived from the Almanak.

The table shows that the percentages developed in line with the average discount rate, which is presented earlier in figure 5.3. As far as the discount rates for 1970 are concerned, it should be noted that the descriptions of the accounting policies did not disclose clear enough in what way these rates were affected by the different accounting treatment of interest rate rebates to policyholders. As is noted before, under the influence of a revised tax regime life insurers started to capitalise and amortise these rebates at the end of the 1960s or in 1970, instead of writing them off in the year they were awarded. In substance, this was the same as increasing the discount rate to calculate the life insurance provision after deducting such capitalised rebates. Table 5.15 gives the impression that only the Algemeene Friesche and the Groot-Noordhollandsche included the capitalised interest rate rebates in the disclosure of their average discount rate. The capitalised amounts were, at the request of the Insurance Chamber, from 1970 onwards included under miscellaneous debtors and other assets in the balance sheet. In the profit and loss account, the charges related to the year were presented as a separate line item. This practice was also applied in the consolidated financial statements of the AMEV and the Nationale-Nederlanden.
The impact of the introduction of the new tax regime was credited to the reserves by almost all companies: the only exceptions were the Eerste Nederlandsche and the Nillmij, which reported the amounts at the end of 1969 in the profit and loss account, under charges and under income.

The methods to determine the life insurance provisions resulted in considerable undisclosed reserves, despite the fact that the Insurance Chamber had expressed soon after its inception that it did not want such reserves to be too large.\footnote{Barendregt and Langenhuyzen (1995), p. 145.} However, the policy continued in practice, for instance to save tax.\footnote{Ibid, p. 257.} Another purpose was to prevent decreases in dividends, as was the case for the Nederlanden van 1845 during the Second World War, when it released part of its undisclosed reserves, which were especially created for the purpose of dividend equalisation.\footnote{Ibid, p. 226.}

**Non-life insurance provisions**

In the period reviewed in this chapter, there appeared, gradually, more publications in the literature regarding the non-life insurance business. This started with some articles in the insurance press in 1925 revealing the customary practices in respect of reserving. The first referred to the methods applied to determine the provisions for unearned premiums, which were based on the net premium, i.e. the premium after deduction of the commissions paid to agents and brokers.\footnote{De Polis (1925a).} It explained that, usually, for marine insurance business 25\% of the net premium was reserved, and that this was 40\% for fire insurance business. A second article explained the difficulties in determining the provisions for claims outstanding in marine insurance business, in particular because of different methodologies applied at the Rotterdam and the Amsterdam insurance exchanges.\footnote{De Polis (1925b).} It noted that in Rotterdam all underwriting companies were notified of a claim, but that in Amsterdam this happened only for the first two or three undersigned: the others were only notified much later, increasing the difficulties to determine their provisions. In a response to this article, an anonymous writer noted that determining the provisions in Rotterdam was as difficult to determine as in Amsterdam, because of the uncertainty about the size of the claims and the related expenses in case of a ship far away from home.\footnote{De Polis (1925c).} For this reason, the author noted, some of the best German insurance companies had started to apply, already far before the First World War, a system combining the provisions for unearned premiums and claims outstanding, reserving at least 60\% of the premiums. In my view, this was a clear example of the fund system.\footnote{See section 2.8.2.2.}

Regarding the provision for unearned premiums, the auditor M. Buys noted in 1930 that this was the most difficult area in preparing the financial statements for non-life insurers.\footnote{Buys (1930).} This was related to the large variety of risks in this business, which required specific methods depending on the risk pattern over the term of the contract. In a number of cases, a time-proportional allocation of the premiums would result in significant over- or underestimations of this provision.
The issue of over- or underestimation of the provision for unearned premiums was also discussed in Het Vakblad.\textsuperscript{491} It referred to the rule-of-thumb in the fire insurance business to set this provision at 40% of the premiums, and noted that this percentage was determined at the time that the average ongoing expenses amounted to about 20% of the premiums. However, in the beginning of the 1930s this percentage was much closer to 40%, which indicated that the rule-of-thumb might not be justified anymore.

Regarding the non-life insurance provisions, most disclosures in respect of the accounting policies in the financial statements of the reviewed non-life insurers were limited and/or generic, mentioning the use of “prudent assumptions” or “on a very prudent basis”. The exception was the Holland van 1859, which noted that its provision for unearned premiums was calculated as 40% of written premiums and that it applied the fund system for its marine insurance and aviation insurance business, disclosing the parameters used.

5.5.6 The accounting treatment of long-term employee benefits
In respect of pensions, de Goeij explained that most life insurers in the 1920s had introduced a pension scheme for their employees.\textsuperscript{492} In some cases these were included in the life insurance provisions, in other cases they were reported as ‘pension fund reserves’, which were, in substance, similar liabilities as the life insurance provisions.

These observations were also applicable to the companies reviewed in this dissertation, although none of companies provided any information on the contents or the accounting policies of such schemes. However, most financial statements revealed that such schemes did exist: a large majority of the companies showed expenses related to a staff pension fund in their profit and loss accounts. Some other companies reported movements in their reserves related to such expenses. And one company reported, although not for the whole period, premiums related to staff pension funds in other income.

As is described when presenting the Dutch legal prudential developments between 1950 and 1961, life insurers were allowed to include their pension obligations in the calculation of their technical provisions.

5.5.7 The accounting treatment of taxes
Concerning tax, the Insurance Chamber observed that the life insurance companies sometimes reported these items, incorrectly, as expenses in 1925.\textsuperscript{493} In its view, tax should be reported as part of the profit appropriation instead.

The following comments regarding the topic appeared only much later. In respect of the deferred tax provisions, the auditor J. Stil Jr. noted in 1953 that the existence of fiscal equalisation reserves, which had to be released to taxable profits when the insurance activities were ended, should result in the establishment of such provisions.\textsuperscript{494} In his view, the amounts of this and other non-taxed reserves were, at the beginning of the 1950s, of such a significance that this issue should be taken into account when preparing the financial statements of insurance companies.

\textsuperscript{491} Het Vakblad (1931).
\textsuperscript{492} de Goeij (1929).
\textsuperscript{493} Verzekeringkamer (L1925).
\textsuperscript{494} Stil (1953).
This view was aligned with the 1962 paper of the CAB, described earlier when presenting the activities of the Dutch auditing profession. The financial statements of the companies revealed virtually nothing on deferred tax on non-taxed reserves. Before 1950, some companies disclosed tax liabilities, mostly in the notes, but these, generally, only referred to current tax liabilities related to the profit of the reporting period. Subsequently, some companies showed transfers to or from a reserve or provision for tax in their movement schedules of reserves, but specific disclosures in the balance sheet were absent. For this reason, it is not possible to assess whether the recommendations of the CAB to establish deferred tax provisions were followed.

Regarding the presentation in the profit and loss account, practice differed. A large number of life insurance companies disclosed the tax amount as part of the profit appropriation consistently for the whole period. This was, probably, the result of a statement by the Insurance Chamber in 1925, mentioned above. The only exception was the Utrecht, which followed this industry practice until 1963, but subsequently included the tax amount for the year, separately disclosed, in other charges. This was in line with the practice applied by the AMEV after its listing, which also reported the item as a charge in the profit and loss account, as did the Nationale-Nederlanden. As far as the non-life insurers are concerned, most companies reported tax consistently as a charge to the profit and loss account, and not part of the profit appropriation.

Comparing these findings with those of companies listed at the Amsterdam Stock Exchange, it can be noted that the insurers provided more information on their tax charges in the profit and loss account, but substantially less on their tax positions in the balance sheet.

5.5.8 The presentation of segment information
In respect of this topic, a distinction should be made between life and non-life insurers.

The financial statements of the life insurance companies provided no segment information at all, as this was not required under the life insurance business act.

On the other hand, the non-life insurance companies all presented income and charges per business segment in their profit and loss account, although not all applied this practice from the start: one company already presented such amounts from 1925 onwards, two others started in the 1950s, and one company only commenced after the introduction of the non-life insurance business act.

As far as the holding companies were concerned, the AMEV presented, after its listing, profit and loss accounts per segment (life insurance, non-life insurance, and other activities) as well as a combined statement. The Nationale-Nederlanden, on the other hand, presented, between 1962 and 1967, income and charges per business segment, and subsequently a profit and loss account for life insurance business, non-life insurance business, and on a combined basis.

Comparing this level of segmental information with the disclosures provided by companies listed at the Amsterdam Stock Exchange, both insurance groups provided much more information.

---

5.5.9 The accounting treatment of business combinations

Regarding business combinations, van Haaften noted in 1930 that when life insurers applying the net premium method acquired a portfolio which was calculated using the Zillmer method, they often recalculated this portfolio to the net premium method.\textsuperscript{497} The difference was then capitalised and amortised the difference under the heading “kosten van oprichting en uitbreiding” (cost of incorporation and expansion).

The vast majority did not disclose any information on business combinations. The accounting treatment was described by none of the companies, and could only be derived from the financial statements for some companies. In one case, the acceptance of a large portfolio resulted in an increase of the extra reserve. This concerned, in 1951, the transfer of the Dutch portfolio of the East Indies Nillmij to the Nillmij 1859.\textsuperscript{498} In one other case, the accepted life insurance provision was reported under other income, compensated by an extraordinary large increase in this provision in the year; and in a third case the acquisition was reported invisibly, only evidenced by the fact that the balance of the life insurance provision at the beginning of the year was larger than the amount at the end of the previous year. Only the AMEV disclosed its treatment of acquired subsidiaries in the first years of its creation in 1920: between 1920 and 1923, it used its profits to amortise the full acquisition price, and only after this write-off, in 1923, it started reporting annual profits. It was also the only company which disclosed, at the end of the period, that it charged goodwill to the reserves. The practice described by van Haaften was not identified in the reviewed financial statements, possibly because of the lack of a description of the accounting policies.

5.6 Summary and conclusions for the period 1923-1970

As in the previous chapter, this section provides the answers to the four remaining research questions for the period reviewed in this chapter:

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 approach?

\textsuperscript{497} van Haaften (1930).
\textsuperscript{498} See section 3.2.3.
5.6.1  The developments in respect of financial reporting requirements

The financial reporting developments occurred in a period in which the Dutch population almost doubled, experienced an enormous growth in welfare, and witnessed a strong expansion of the social security system, not just for employees but, from the mid-1950s onwards, for the population as a whole. All these developments contributed to an explosive growth of the Dutch insurance industry, which showed an increasing number of mergers and cooperation agreements, in particular in the 1960s, and the listing of a number of insurers on the stock exchange. It was also the period in which fundamental changes in the tax system applicable to Dutch insurers were introduced, by replacing a system of dividend and bonuses tax by a focus on the total profit of the company. For insurers, this was combined with the possibility to create tax-exempt reserves, which should, however, be used to absorb taxable losses before any other form of tax compensation was available. At the end of the period, the maximum limits of these reserves were decreased, but the government also introduced new calculation rules to determine the life insurance provisions in the tax returns.

Regarding financial reporting requirements, an important event in the period, which would also influence the future prudential reporting requirements, was the establishment of the EEC in 1957. Its activities focused on the creation of a common market by removing the barriers on the free movements of persons, services and capital. This was achieved by issuing directives, which should be implemented in the member states. The only relevant directive issued in the period included the requirement for joint stock companies to prepare and publish an annual balance sheet and profit and loss account, i.e. making such financial information available not just to the shareholders, but also to the public at large.

Related to the start of the EEC, the European insurers and auditing profession organised themselves by the creation of the CEA for the insurers, and the UEC and the Groupe d'Etudes for the auditors, and all these groups became involved in the European financial and prudential reporting developments. But also several global organisations started to become active in these areas: these were the UN, the OECD, and the Anglo-Saxon accounting standard setters group the AISG.

Overlooking these developments and with the knowledge of the subsequent events discussed in the next chapters, my conclusion is that the most important event in the period was, by far, the establishment of the EEC, which directives would have a major impact on the Dutch financial reporting developments from the early 1970s onwards.

In the UK, the financial reporting requirements were considerably strengthened in the period, in particular through the introduction of the companies act of 1947. It introduced requirements for a true and fair view in the financial statements, as well as consolidated accounts and the prohibition of secret and undisclosed reserves. However, banks and insurance companies were exempted from this prohibition, and although the latter were not permitted anymore to use their prudential returns as their official financial statements, they were allowed (but not required) to continue reporting under the accounting principles of the prudential acts, with some additional disclosures but without prudential filters. As a result, in practice the UK insurers moved from a type 1 to a type 3 single-track reporting approach. The period also shows the start, in the early 1940s, of a number of activities of the auditing profession to address observed weaknesses in financial reporting through the issuance of non-mandatory guidance for its members.
Regarding the UK developments, I conclude that the developments started in the previous period continued, resulting in an increasing focus on providing financial information to the public at large rather than just to the shareholders, but that they had only a limited impact on the financial reporting practices of insurers: the prudential reporting requirements were still leading.

The financial reporting developments in the US were dominated by the legal establishment of the SEC in 1934, which was given broad authority to determine the accounting practices by companies listed on a US stock exchange. However, whenever possible, the SEC refrained from issuing own pronouncements and relied, instead, on the private sector, in particular the auditing profession, to develop the accounting standards which had to be applied. This was also the approach adopted by the NYSE, although it did require, already at the start of the period, listed companies to present comparative figures, consolidated accounts and extended disclosures. The auditing profession responded in the mid-1930s by the creation of technical committees, which issued pronouncements on a wide variety of topics. In particular the ‘Opinions’ issued by the APB, created in 1959, had a large influence on the financial reporting developments in the period. This was supported by a research study issued in 1965 which presented a hierarchy of basic concepts, objectives and principles underpinning the financial reporting requirements in the US and, as is shown in the next chapter, in the Netherlands. However, these developments had only limited impact on the financial reporting practices of US insurers: driven by existing state legislation, they continued to report under the prudential reporting requirements without additional information and prudential filters (a type 1 single-track reporting approach), although they subsequently, in the 1950s, started to provide additional information (a type 3 approach).

My conclusion on the US developments is that the events in the period laid the foundation for a large number of developments having a strong impact on the subsequent financial reporting practices, not just in the US, but also in the Netherlands and on a global level. On the other hand, the direct impact on insurers was only limited.

The Dutch financial reporting developments in the period started with the resolution of the stalemate situation between the government and Parliament on the publication requirements for joint stock companies: in 1929, a revised commercial code was adopted, which stated that only public companies had to deposit their balance sheet (which should include a number of specific assets) at the trade register, i.e. make it available for public inspection. Public companies included those that were listed, but also banks and insurance companies. Publication of an annual profit and loss account was not required. Soon after, it was clarified that life insurers could continue to report under the models of the 1922 life insurance business act. As the result of a pronouncement by the Insurance Chamber in 1934, this meant in practice that the prudential returns were always used as the official financial statements without additional information and prudential filters (a type 1 single-track reporting approach). The models for these returns were much more extensive than what was required from non-insurers. In this respect, the Dutch life insurers provided much more information than all other Dutch joint stock companies.

Further legislative developments occurred in the 1950s with the adoption of a new civil code (which was, however, not yet effective in the period), and, at the end of the period, with the adoption of the companies’ annual accounts act.
The companies’ annual accounts act was based on the recommendations of an advisory committee, published in 1964, and required that the financial statements should present faithfully and consistently the financial position and the return on invested capital, as well as the solvency and liquidity position of the reporting company. Furthermore, the accounting policies should satisfy norms that were considered to be acceptable in the economic and social climate. Insurers were allowed (but not required) to use the prudential returns as their financial statements, but only if all information required by the companies’ annual accounts act was included; if not, they had to prepare separate financial statements (a type 3 single-track reporting approach: prudential filters were not applicable).

The act was, in a way, a legislative response to a number of private developments during the period. Next to the Amsterdam Stock Exchange, which required the publication of comparative amounts and consolidated financial statements from 1958 onwards, this concerned the introduction of an award for the best financial statements, and the publication of several reports by the Dutch employers’ organisations, the ‘think tanks’ of two political parties, and an investors’ organisation. All these initiatives occurred between the mid-1950s and the early 1960s, and therefore influenced the discussions and recommendations of the advisory committee mentioned before. However, none of the reports made reference to insurance companies. In these initiatives, the preparers took the lead, which can possibly be explained by the international expansion and US listings of several large Dutch companies and, as a consequence, their exposure to the US trend to improved financial reporting practices.

Also the Dutch auditing profession became more active even though the appointment of an auditors was not (yet) legally required, not just by the personal involvement of its influential member Kraayenhof in a number of these developments, but also by issuing comment letters on proposals and two reports dealing with the abolishment of secret and undisclosed reserves, and with accounting for deferred tax. In several of these publications, reference was made to the developments in the UK, but in particular in the US, for instance in respect of the publication of consolidated accounts.

Concerning the Dutch insurance industry, the adoption of the life insurance business act in 1922 and the subsequent publication of mandatory models for the balance sheet and the profit and loss account resolved the debate in the previous period on the formats to be applied. For non-life insurers, this continued, however, until the mid-1960s when a similar supervisory act was adopted for this part of the industry. Since the 1922 act did not include anything on accounting policies, this debate continued, in particular in respect of investments: observers noted still a wide variety of measurement approaches and defended their preferences, at the same time explaining that there was a clear trend to report unrealised and realised gains and losses on investments directly in the reserves. Regarding the technical provisions for life insurers, the debate came to a halt, with the recognition that, in general, the net premium method was the mostly applied and accepted method. The discussions concerning the discount rate also disappeared, as companies now generally used similar rates, influenced by the explicit or implicit guidance included in the annual reports of the Insurance Chamber. For non-life insurers, the comments mainly focused on the lack of transparency in the method to calculate their technical provisions.
Overall, I conclude that the financial reporting requirements in the Netherlands were considerably expanded, mainly under the influence of a number of private initiatives focusing on more extensive reporting to the public at large, which pressed the government to take action and develop an act regulating the annual accounts of joint stock companies, catching-up with the legal developments in the UK. However, the impact of developments at the level of the EEC, the UK, and the US was only limited or indirect in the period. At the same time, the financial statements of insurance companies were hardly affected by these developments, since they were required to continue to prepare and publish their accounts based on the prudential reporting requirements established in the mid-1920s (a type 1 single-track reporting approach). As a result, despite all other developments, the life insurers still presented much more information than the rest of the business community.

5.6.2 The developments in respect of prudential reporting requirements

Outside the Netherlands, the developments in respect of prudential reporting requirements were limited in the period reviewed in this chapter. At the level of the EEC, one directive was adopted, which, however, was not applicable to the Netherlands. At the same time, initiatives were taken to create a closer relationship between European insurance supervisors, which would have some impact on the developments described in the next chapter. And in the UK, the most important event was the adoption of a new insurance supervisory act in 1948, which introduced, for the first time, solvency requirements for insurance companies.

Finally, in the US the battle between the states and the federal government continued, giving room to the NAIC to introduce more model laws, which were subsequently implemented at state level. This development made the prudential returns of US insurers less comparable to the financial statements of other companies. In the period, solvency requirements started to become a topic of increasing attention from insurance supervisors.

In the Netherlands, an important development was the publication of the mandatory reporting schedules under the 1922 life insurance business act, which were applicable from 1925 onwards. These schedules introduced prescribed models for the balance sheet, the profit and loss account, and a number of supporting schedules, mainly dealing with interest income, expenses, investments, and the technical provisions. The act and the models were amended several times in the remainder of the period, but never fundamentally changed. During these developments, the Insurance Chamber clarified, in 1955, that life insurers were allowed to include their obligation from staff pension schemes in their life insurance provisions, resolving an uncertainty that had existed before.

However, the main event in the period was the adoption, in 1964, of a non-life insurance business act, placing non-life insurers under supervision and introducing, from 1967 onwards, prudential reporting requirements which were quite similar to those applicable to life insurance companies, although – in contrast to life insurers – not all non-life insurers’ schedules were made public. As a result, about 400 domestic and 150 foreign companies became subject to such supervision near the end of the period, after a period of almost 40 years of debate. Although the act of 1964 was also based on the UK system of ‘freedom with publicity’, the Insurance Chamber had more powers to intervene and issue obligatory guidance than was the case under the life insurance business act of 1922.
With the 1964 act for non-life insurers, the scope of Dutch insurance supervision became aligned with that of the UK and the US; however, specific solvency requirements were still absent (for life insurers) or only available in a rudimentary form (for non-life insurers) and the outcome was not disclosed. Whether or not the Insurance Chamber applied adjustments to the prudential returns to assess the financial position of insurers is unknown.

Overall, my conclusion on the prudential reporting developments in the period reviewed in this chapter is that, as far as life insurers are concerned, they were relatively modest compared to the events in the previous period. Once the life insurance business act was adopted in 1922, subsequent developments followed without much debate and introduced little change. For non-life insurers, there were no developments until the end of the period, when a non-life insurance business act was adopted in 1964. In contrast to the previous period, the developments in the UK and the US did not impact those in the Netherlands.

5.6.3 The relationship between financial and prudential reporting requirements
Regarding the relationship between these two sets of reporting requirements, it is, in my view, clear that, in the period reviewed in this chapter, the developments in the UK, the US and the Netherlands continued to move in the same direction: the application of a single-track reporting approach, under which the financial statements were either identical to the prudential returns (a type 1 approach), or heavily impacted by the prudential requirements through the use of similar accounting policies, without prudential filters, but with the disclosure of additional information (a type 3 approach).

In the US, federal legislation regarding the contents of the financial statements was still lacking, and this gap was filled by the auditing profession, stimulated by the SEC and the NYSE, by the issuance of more and more binding pronouncements for its members. This had, however, no or only limited impact on the financial statements of insurance companies, which, under the influence of state legislation, had to prepare their financial statements in accordance with the prudential reporting requirements. These requirements were in an increasing manner influenced by the NAIC, which issued mandatory valuation principles for the investments, but also required the elimination of certain assets from the balance sheet.

In the Netherlands and the UK, there was a clear trend to an increasing number of financial reporting requirements; these were, in both countries, not applicable to insurance companies if they reported under the existing prudential reporting requirements. In other words, in all three countries the latter continued to dominate the reporting regime for insurance companies.

5.6.4 The actual reporting developments and choices
The introduction of the mandatory models under the life insurance business act of 1922 resolved the debate concerning the formats of the balance sheet and the profit and loss account. All life insurers reviewed in this dissertation applied them, and only added a very limited number of lines. With this, the previous level of diversity disappeared. All life insurers and most non-life insurers presented movement schedules of their reserves, but cash flow statements were not provided. Comparative amounts were presented by all life insurers in the notes, as was required by the models under the life insurance business act; these models did not allow the inclusion of such amounts in the balance sheet and the profit and loss account themselves.
Such limitations on the inclusion of comparative amounts did not exist, before 1967, for non-life insurers and most of them provided such amounts in their primary financial statements. From 1967 onwards, this was a requirement under the models of the non-life insurance business act.

With respect to comparative information, I conclude that insurers were (far) ahead of most other companies, as such information was not required under the commercial code and, to my knowledge, not widely provided on a voluntary basis. The insurers were also ahead as far as the size of their financial reports was concerned: it continued to increase, in all sectors of the insurance industry. As was required by the prudential legislation, a type 1 single-track reporting approach was consistently applied.

This level of convergence between the insurers was, however, not the case in respect of the accounting policies applied. In line with the contemporary industry practices, the life insurers continued to use different systems to measure their investments, in particular for their securities, using the stock exchange value, cost, face or redemption value, or a mixture of these principles. On the other hand, for land and buildings, and for private loans, there was much less diversity: the first category was, almost always, measured at a conservative basis below appraisal value (although the clarity of the actual principles varied), and the second category was consistently measured at face value. The accounting for unrealised and realised gains and losses on investments was initially not clear in all cases; however, towards the end of the period it became apparent that all life insurers reported these items directly in the extra or a separate investment reserve: these were, in substance, the only two reserves reported in the period.

Regarding the life insurance provision, which was consistently calculated on an annual basis, the previous differences in methodology also largely disappeared: apart from one mutual company, all used the net premium method, with a comparable and prudent discount rate. This practice continued until the end of the period, when, driven by amendments in the tax regime applicable to insurance companies, the life insurers started to capitalise and amortise interest rate rebates, which, effectively, meant using a higher discount rate to determine the life insurance provisions. Strengthening of the provisions, on top of the normal additions, was reported in the profit and loss account, but consistently compensated by visible releases from the extra reserve.

The variety in the financial statements of non-life insurers remained until the mandatory application, from 1967 onwards, of the mandatory models under the non-life insurance business act of 1964, which was also based on a type 1 single-track reporting approach. This diversity concerned in particular the profit and loss account: the differences in the balance sheets were minor, and these statements included substantially more information than required under the 1929 commercial code. The differences in accounting treatment of the investments were also observed for non-life insurance companies. Regarding the non-life technical provisions, no definitive conclusions can be provided, since there was an overall lack of transparency of the methods used to determine these liabilities.

The period also witnessed several important mergers, in particular including the AMEV and the Nationale-Nederlanden (the legal successor of the Nederlanden van 1845) in the early 1960s. The subsequent listings of the AMEV and the Nationale-Nederlanden had a distinct impact on their reporting practices: for the first time, they published consolidated financial statements, driven by the requirements of the Amsterdam Stock Exchange.
The accounting policies of the holding companies followed those applied by their Dutch insurance subsidiaries, and were, therefore, led by the prudential reporting requirements. The layouts of the consolidated balance sheets of the AMEV and the Nationale-Nederlanden showed, initially, considerable alignment with the models under the life insurance business act 1922 (a type 10 single-track reporting approach), but subsequently also with the models proposed by the Verdam committee in 1964 and the subsequent companies’ annual accounts act of 1970 (a type 12 approach). For the AMEV, the conversion of a family-owned private company into a listed public company also resulted in a significant increase of the size of its financial reports and the publication of its accounting policies. On the other hand, the listings of the Eerste Nederlandsche and the Nillmij had no impact on their reporting practices.

The findings concerning the other selected elements of financial reporting are:

- The obligations from the staff pension schemes of life insurers were, generally, included in the life insurance provisions, as was allowed by the Insurance Chamber, but information on the contents of the schemes was still lacking;
- The disclosures in respect of taxes were insufficient to determine whether the recommendations from the private sector in the mid-1950s and the early 1960s to account for deferred tax were followed;
- Segment information was only provided by the non-life insurers in their profit and loss account, although the AMEV and the Nationale-Nederlanden, after their listing, expanded their segmental disclosures considerably and presented much more information than was usual at the time;
- The accounting treatment of business combinations was, generally, not disclosed: only the AMEV reported before its listing that it wrote off the full acquisition price of any acquired subsidiaries; and
- Solvency information was not provided.

Overall, my conclusions on the findings of this period are that the developments in financial reporting requirements, whether of legal or private nature, did not directly impact the financial reporting practices of the Dutch life insurers. From the start, they prepared their prudential statements in accordance with the supervisory regime, and, as was required by the Insurance Chamber and subsequently the legislation, used these statements as their annual accounts (a type 1 single-track reporting approach). As was the case in the previous period, these accounts included much more information than was provided by non-insurers at the time, and were also much more harmonised, although the differences in accounting policies for investments continued to exist. Despite this, a user with sufficient industry knowledge was able to assess the solvency position of a life insurer, a theme that started to attract increasing attention of insurance supervisors, although specific Dutch requirements did not yet exist.

The financial reporting practices of non-life insurers were also, in my view, considerably better than those of non-insurers, even though they were only subject to supervision near the end of the period reviewed in this chapter.
The private initiatives and, in particular those of the stock exchange, did impact the financial reporting practices of the holding companies once they were listed at the Amsterdam Stock Exchange. They based their annual accounts largely on those of their life and non-life insurance subsidiaries, but also presented comparative amounts in their primary financial statements, consolidated financial statements, and, compared to contemporary practices, much more extensive segment information.

Overall, it is in my view clear that the financial reporting practices of the Dutch insurers, both holding and operating companies, were, despite the growing attention for providing information to investors and to the public at large, primarily determined by the prudential requirements. As a result, these companies provided much more financial information and were, therefore, more transparent than most other companies in the Netherlands.