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Layout & Distribution: Valéria Kozakova

A Private Investor Perspective on Insurers and their Reporting

Martin White

What UKSA Does

- Promotes (your) rights as a shareholder.
- Promotes good standards of corporate governance.
- Campaigns for a fair market and fair tax treatment for private investors.
- Provides education and other benefits to members, as well as to the wider public
- Importance of network for members to contribute

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About UKSA

- UKSA is a non-profit making organisation owned by its members (a company limited by guarantee).
- Governed by an unpaid board of directors, and supported by a regional network.
- Volunteer ethos, interest of all private investors/savers, not just our members
- 15 years old, but hardly started: more on vision and challenges for insurers later

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Relevant for IASB

- Stewardship perspective should be paramount
- As should be principles such as prudence, consistency
- Deplore any activity motivated by managing of earnings or financial strength: e.g. financial reinsurance
- A liability is a liability – own credit risk write down is madness; recognise on cancellation only

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Earnings, profits, financial strength

- Will financial turmoil lead to some re-thinking?
- Disclosure of market values is vital
- But does it make sense to include all changes in market value in earnings – definitely not!
- Solvency 2 attempts to keep capital requirements low – to make management look good? Danger of manipulated ROC

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Reporting: soft measures vital

- Stewardship perspective should be paramount
- As should be principles such as prudence, consistency
- Deplore any activity motivated by “managing” of earnings or financial strength: e.g. financial reinsurance
- A liability is a liability – own credit risk write down is madness; recognise on cancellation only

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Motivation in companies

- What motivates you?
- High salary?
- Bonus?
- Status?
- Security?
- Competition / winning?

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Motivation in companies: culture

- What motivates the team, long term?
- Worthwhile cause?
- Openness and shared values?
- Focus on sustainable competitive advantage?
- Customer focus?
- Leadership as service?
- Humility with confidence at the top?

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Motivation in companies: culture

- You get what you reward for
- So get it right
- No share options
- Growth per se is too simplistic
- Base rewards on building of sustainable competitive advantage
- Best businesses get fair ROC without gearing or manipulation, but only as a by-product of meeting customer needs.

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Implications for reporting

- Stewardship perspective should be paramount
- As should be principles such as prudence, consistency
- Deplore any activity motivated by managing of earnings or financial strength: e.g. financial reinsurance
- A liability is a liability – own credit risk write down is madness; recognise on cancellation only

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Reporting: from “restoring trust” **

- High proportion of boardroom time given to discussion of how to present results
- Instead of how to present them fairly
- Lessons / examples from Colin McLean’s presentation

**<http://www.tomorrowcompany.com/downloads/Sir%20R%20Sykes%20speech%2015%20June%202004.pdf>

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Communicate competitive advantage

- Are you set up to walk away when the price is wrong?
- If not, you are not investible. Shareholders must understand implications
- Cost advantage? Underwriting advantage? Investment edge? Financial strength (as opposed to BS “management”?)
- Please clients, build capability at all times, care for the culture
- What else is there?

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Challenges of today

- Insurers have a double stewardship role
 - Shareholders' wealth
 - Customers' wealth
- Distinction between savings business (life insurance) and protection business (non-life, and some life)
- Remember who your real customers are
- They are not fund managers or analysts

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The intelligent customer / investor 1

- UKSA dreaming.....
- The intelligent investor, as saver and customer, will not pay commission
- Understands that active management normally destroys value
- But there are times when it's worth paying something for active management
- - though not much: hate big % of fund pa
- But will pay for good advice and counselling

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The intelligent customer / investor 2

- Pays fees for advice and understands the three hurdles for wealth creation:
 1. In all businesses: created by serving customers needs
 2. But appropriated by management
 3. And, if shares are not held directly, extracted by financial services
- Stewardship relates to the first two
- Avoid the third (woe for financial services)

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The intelligent customer / investor 3

- Reward fund managers after the event only
- Or pay a modest salary only.
- Do not reward for recruiting new money
- Most fund managers don't beat a tracker, so why pay extra for probable failure?
- Proper partnership requires long term lock-in on both sides. No quick riches.

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More dreaming

- In a post Retail Distribution Review world
- Only fee-based advice can be called advice – everything else is sales
- What people need is counselling to help with long term financial planning, budgeting, etc – we don't all feel comfortable looking ahead into uncertainty
- People need disinterested advice, not sales, and help to avoid most products

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A world of intelligent consumers?

- Some investors, hopefully more, will learn the joys of owning specific shares
- Cost is ... everything ... everything (well, almost)
- Ishares are the benchmark to beat for cheapness
- UKSA committed to promote real understanding
- Could you cope if consumers were properly educated and advised?

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Conclusion

All feedback welcome, no need for tact

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Christmas reading: *Seeking wisdom: From Darwin to Munger*,
by Peter Bevelin
ISBN-13: 978-1-57864-428-5
ISBN-10: 1-57864-428-5

New year reading: (pub Jan09, available now for cheap pre-order)
*The Long and the Short of it: A Guide to Finance and Investment for
Normally Intelligent People Who Aren't in the Industry* by John Kay
ISBN 978-0-9548093-2-4



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