

## **Reply from VNAB (the Dutch Insurance Exchange Association) to the preliminary findings of the Sector Inquiry presented in the Interim Report.**

### **Combined Ratio's**

As insurers use their own criteria for the calculation of their profit and loss accounts we have no market data on the results of the insurers portfolio's related to their activities in the Dutch co-insurance market. We like to mention however that due to the market cycles (hard and soft markets) the market results are rather volatile (over the last decades many insurers have, due to heavy (portfolio) losses in our business segments, withdrawn from the market). As a general remark it is fair to say that over longer periods there are strong indications that the results in the Dutch co-insurance market for participating insurers are less favourable than for non-participating Dutch insurers as has often been illustrated by withdrawals of insurers from this market

The costs of the market infrastructure resp. transactions, to be paid by the members (insurers and brokers), are rather low (nearly negligible). The total market costs can be estimated to be about 0,375 permille of the market premium turnover.

### **Best terms and conditions clause**

Since our discussions with the NMA (Dutch competition authority) in 2005 this clause is not in use anymore.

### **Long-term agreements**

Nearly all policy contracts are in force for a period of 12 months, with (for reasons of efficiency) or without a tacit renewal clause. In case of a period longer than 12 months there are specific reasons, discussed before, for doing so.

### **Intermediaries' remuneration**

Our client segments are corporate, large and (upper) middle market clients, handled by the large and medium sized brokers (our association has 60 broker members only). The large brokers disclose their remuneration and have abandoned contingent commissions; other brokers disclose, at their clients requests, their remuneration. Moreover many clients – through their in house professionals – are very knowledgeable about the issue of remuneration. There is anyway a strong tendency that the larger and (upper) middle market clients are paying fees for services delivered by their insurance brokers who consequently will place insurances on a nett basis or rebate the full commissions to such clients.

### **Commission rebate**

Even if no fee agreements apply rebating (part of) the commissions by insurance brokers is common practice with LCC's. There are no agreements between insurers and brokers, or any other practices, not to rebate commissions. In the past legal rules applied preventing commission rebate, except for certain branches or situations, but such rules have been abolished some years ago.

### **Horizontal cooperation**

Cooperation between insurers, due to its nature, is common practice in our co-insurance market. The benefits are that co-insurance is a relative cheap way of spreading risks, makes insurers and brokers therefore less dependant on the involvement of reinsurers; creates an insurance solution for risks that are declined for 100% acceptance by a single insurer and offers a cheap, easy and quick solution to achieve competitive insurance proposals for clients through their brokers who have easy access to the market.

In case of discontinuation of the co-insurance market for the future the consequence will be that the large(r) risks will be "exported" to markets outside Europe such as e.g. Bermuda, while the "smaller risks" have to be covered by the so-called provincial insurers which will undoubtedly ask for higher rates/deductibles and/or offer limited coverage.

Standard wordings, since our consultations/discussions with the NMA, do no longer contain premiums, amounts insured, percentages, franchises and/or deductibles. Standard wordings are not meant to limit the competition. To the contrary they facilitate efficient insurance solutions, simplify the entrance of new members (insurers and brokers), create common "language"/ jurisprudence and therefore improve competition!

At last we like to mention that our standard wordings are NON binding (differences are allowed), while most brokers, who design the cover resp. take care of tailormade insurance solution(s) use their own policy documents, most of the time based on the standard wordings, but extended/amended by the use of their own clauses.

Amsterdam, 10<sup>th</sup> of March 2007

The Dutch co-insurance market.

The history of the Dutch co-insurance market dates back to the 17<sup>th</sup> century. There were physical market-places in Rotterdam and Amsterdam where brokers and insurers, as well as loss adjusters and lawyers could meet each other to discuss quotations, to place insurances and to handle claims in a very efficient way. With increasing electronic communication, these were dismantled in 2002.

After having created a central clearing system to efficiently deal with the settlement of premium and claims in the 1980's, we started to investigate a solution for a high-tech and efficient infrastructure for direct communication and on-line trading within our market in 2002. Since 2004 we have an on-line claims handling system in place handling about 40.000 claims per year.

In the next two years we expect to implement a new e-IES (Electronic Insurance Exchange System), an innovative and integrated system for the main primary processes: placement, claims and clearing. This system is designed to anticipate the changing demands of the market with respect to work speed, effectiveness, transparency, governance and cost efficiency more adequately. Moreover the system will allow the achievement of the so-called "contract certainty".

The market data over 2006 are:

Property:	16.344 policies with gross premium of	Euro	472.000.000,00
	Total insured amount 2006 Euro 486.000.000.000,00		
Marine:	16.205 policies with gross premium of	Euro	398.000.000,00
Casualty:	15.651 policies with gross premium of	Euro	260.000.000,00
In total	48.200	Euro	1.130.000.000,00

Membership: 30 insurers (of which 8 underwriting agents) and 60 brokers as well as a number of associated members (loss adjusters and lawyers).

Amsterdam, 10<sup>th</sup> of March 2007