



High times in the lowlands

The Netherlands remains a highly attractive location for companies with 397 international companies choosing to register in the Netherlands in 2019¹. In this article, I explore some of the reasons behind this by examining the parallels and differences between the Netherlands and my home country, the United Kingdom in order to understand the strengths and challenges that face the life insurance industry here in the Netherlands.

PARALLELS

The Dutch and British life insurance markets are remarkably similar. With a life expectancy at birth in 2018 of 81.8 and 81.3² respectively, both the Netherlands and the United Kingdom face the challenge of increasing longevity on our societies. Besides this, record low interest rates and stricter solvency requirements have seen insurers on both sides of the channel withdrawing from the sale of risky products (such as endowment assurances) and instead offering more and more products in which risk is transferred to the policyholder (such as investment annuities). The trend of employers changing from a Defined Benefit (DB) pension plan to a Defined Contribution (DC) pension plan can be seen. With the 'New Pension Contract' in the Netherlands, as part of the reform of the Dutch pension system, this trend looks set to catch up with the UK, where very few private sector DB schemes remain open to new members or accrual.

Meanwhile, the explosion of data, computing power and expertise is slowly fueling a revolution that will ignite to disrupt the reporting structures within insurers that we know currently. This will allow insurers to reduce expenses but will stimulate further consolidation of insurers via mergers and acquisitions as economies of scale are exploited. This combined with an increasing mobile workforce, new trade agreements between countries (Brexit excluded) and harmonisation of regulatory standards (via IFRS 17 and Solvency II) means that there are opportunities both for insurers to acquire new businesses abroad or themselves to be consolidated into foreign players.

DIFFERENCES

Given the similarity of trends in the life insurance market between the two countries, the industry itself can be surprisingly different. Within UK insurers, the actuarial teams are almost entirely comprised of fully qualified actuaries. Within Dutch insurers a much broader range of backgrounds is present from individuals with a CFA or similar qualification, or even those with no formal qualification but significant work experience. One reason for this may be that in the UK, there is a much longer tradition of the appointed actuary role. This gives the actuary a more prominent position in the company and the ability to recruit more actuaries. However, in the Netherlands there has typically been a more open discussion about competencies and capabilities and being an actuary has not always been an asset.

Another reason for the broader backgrounds within Dutch insurers is the different actuarial education systems adopted in the United Kingdom and the Netherlands.

The UK actuarial education system sits with a curriculum that requires individuals to undertake a series of exams. For these exams, the Institute and Faculty of Actuaries (IFoA) write the curriculum. It is then up to the student (with the aid of third-party education providers) to choose their path through the system.

On the other hand, the Dutch actuarial system is comprised of two levels; a pre-masters and a master's qualification in Actuarial Science. These qualifications are overseen by the Koninklijk Actuariel Genootschap (AG) but they are delivered and examined by outside practitioners, such as academics and prominent employers. This allows the students to focus on the latest developments in academia and business and can allow the curriculum to update quickly from year to year.

These different systems both have their own relative strengths and weaknesses, but it is clear that different systems attract different individuals with different backgrounds.

Another topic that is famously different between the systems is the work culture. The Netherlands is a country proud of its work-life balance. According to the OECD³, only 0.42% of employees in the Netherlands normally work 50 or more hours a week, compared to 14.92% in the UK (the second worst in Europe). I, myself, have experienced that the Netherlands is highly flexible in terms of allowing its employees to work where they want, when they want and encouraging them to stick to their hours. This is testified by the fact that before the COVID-19 crisis, the proportion of individuals working remotely in the Netherlands was approximately 3 times higher than that the UK and approximately 4 times higher than in the US⁴.

Given these similarities and differences between the Netherlands and the UK, what are the strengths and challenges that arise from them?

STRENGTHS

Firstly, I see that a range of educational backgrounds brings a way of innovative thinking that is not achieved when the majority of members of a team have been through the same educational programme. A broader range of ideas and a lack of preconceptions leads to ideas that may otherwise be ruled out as irrelevant, too simple or indeed too complicated.

Furthermore, an openness and acceptance of cultures that is combined with an outstanding level of fluency in English means that Dutch insurers have an advantage in international opportunities relative to competing markets. This allows the Dutch to market their products, services and businesses on an international stage that may not be open to competitors.

CHALLENGES

The continued risk transfer from life insurers to policyholders poses a challenge and a threat, not only to the insurance industry but also to the wider actuarial profession. If this trend continues too far, then we may see that consumers (particularly young consumers) no longer deem insurance as necessary or relevant. If this occurs, then our profession runs the risk of a slow death as existing business runs off the books of insurers without enough new business to replace it. Actuaries should seek to utilise the diversity in qualifications and background in their teams to utilise the advances in data, technology and computing power to create products that meet the needs of the consumer.

Meanwhile as the world is evolving with a greater vocalisation of our societal shortcomings on gender, sexuality and race. Then our profession needs to look inwards. I observe that much like the UK, the Netherlands insurance industry is failing to do enough to attract a broad range of candidates to the profession, with most actuaries that I

meet being white and male. We should consider if as a profession, we are setting up barriers to entry. For example, could it be that an intensive two years masters limits individuals who have other responsibilities, such as being a caregiver to a dependent person. We should consider if we are discouraging individuals from minority backgrounds to enter our profession. Are we showcasing the best role models to inspire individuals of all backgrounds to become actuaries?

CONCLUSION

As a profession, we should be focusing on our key skills of risk management to lead the way on designing new and innovative products that can respond to the changing world around us. The challenges of low interest rates and longevity require actuaries to solve these problems with new and innovative solutions. To do so, we should seek to build a wider community of individuals with a diverse range of backgrounds to help us refine processes, make more realistic models and to develop new products. Sticking with the status-quo indefinitely will continue to only attract the same backgrounds again and again. We need to make sure that we create a system that attracts all backgrounds and perspectives. New backgrounds will bring new offerings and perspectives and I believe this is the best way that the actuarial profession can ensure that it continues to create new value for policyholders and shareholders alike. ■

1 – <https://www.government.nl/latest/news/2020/02/19/record-number-of-foreign-companies-choose-the-netherlands> accessed 19-09-2020

2 – <https://data.worldbank.org/> accessed 19-09-2020

3 – <https://stats.oecd.org/Index.aspx?DataSetCode=BLI> accessed 27-08-2020

4 – <https://www.bbc.com/worklife/article/20200623-what-the-dutch-can-teach-the-world-about-remote-work> accessed 20-08-2020

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