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EUROPEAN HARMONIZATION

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- o Overview of EEC
- o Valuation standards, solvency margins and financial reporting
- o Removal of trade barriers impact
  - -- Products
  - -- Distribution systems
- o Opportunities for EEC and non-EEC countries

MR. DARRYL L. HARRIS: I serve as corporate actuary for Life of Georgia in Atlanta. Since our parent company, Nationale-Nederlanden, is headquartered in Holland, I have had little need to study the opportunities in Europe. However, I am fortunate to have a team of gentlemen with extensive knowledge of and experience in this market.

Only a couple of years ago, it was unlikely that many could have foreseen the pace of political change that is transforming the continent. One could easily surmise that these events would hasten and intensify the process of harmonization among the countries. However other factors including extreme nationalism are making the prospect of a barrier-free market less likely. Regardless of the outcome, the business opportunities clearly are enormous.

Our three panelists will present information that will help us evaluate this vast market and perhaps help make a decision as to whether we want to be there. Joe Emory is not an actuary but he's married to an actuary who happens to be my boss. After many years in manufacturing Joe accompanied Linda to Holland for a two-year "tour." There he studied extensively the Single European Act and has prepared his thesis on the subject. Joe has now returned to Atlanta and heads his own company, Emory Enterprises. Camilo Salazar is chief actuary for the American and Caribbean Region for American Life Insurance Company in Wilmington, Delaware. He has significant experience in the European insurance market including two years in Paris as product actuary for Europe and one year as chief actuary for Spain and Portugal. Gert Leuven is managing director of Tillinghast in The Netherlands. He started his career in 1966 and completed his actuarial studies in 1977. Gert formed his own consulting practice in 1982 exclusively

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directed at the financial services industry. His firm merged with Tillinghast early this year.

Joe will start off by giving us an overview of the European Economic Community (EEC). Gert will then give a summary of the size of the market. Camilo will discuss the products and considerations for their development and give us some reasons that companies should enter the market. Gert will then complete our discussion with additional information on product development, valuation and financial reporting standards, and the impact of the removal of trade barriers. Afterward we should have ample opportunity for questions from the floor. Joe, you can tell us what we're facing.

MR. JOE B. EMORY: In 1957, the Treaty of Rome was signed by the original six members of the European Economic Community (EEC). They were Germany, France, Italy, Holland, Belgium and tiny little Luxemburg. The objective of the community was to create a common market, that is, they were going to eliminate all the tariffs and barriers to trade among themselves and set up a common tariff on trade with other countries outside the community. A target date of December 1969 was set for the completion of this common market, and in fact they completed it early in January of 1968. In 1973, the U.K., Denmark and Ireland joined the community. Greece joined in 1981, and Spain and Portugal joined in 1986.

The aim of the Treaty of Rome was to coordinate economic integration within the community. "Economic integration" is defined as the elimination of barriers to the free movement of goods, services, labor and capital within the community. But this whole objective bogged down in the problems associated with increasing the community from six to 12 members, and in 1985, Lord Cockfield, who was a very pragmatic British Commissioner of the community, published his White Paper on Completing the Common Market. This white paper set out 179 specific items that needed to be completed if they were going to achieve economic integration, and the white paper set out a target date for achieving these 179 items. That target date is December 31, 1992.

The idea of completing a single market caught on. Under the leadership of Jacques Delors, who is the dynamic French President of the European Commission (EC), the 12 governments passed a new bill, called a Single European Act and ratified it, (it had to be ratified in each of the 12 governments) during 1986 and 1987. This act changed a lot of things, but the primary thing that it changed was it allowed voting on the 179 items that Lord Cockfield called for to be completed on a majority vote basis rather than unanimous, and that allowed them to pass these issues a lot easier and a lot quicker. As of the end of 1989, 60% of the items have been set out in the form of laws and about half of them have been passed by the member governments. These include simplified customs documents at the borders, animal and plant control measures, minimum machine safety standards, standard food inspection and labeling systems and recognition of professional qualifications for pharmacists, general medical practioners and nurses but not yet for veterinarians, chartered accountants or actuaries.

In 1988 Paolo Cecchini, a dynamic Italian commissioner to the market, published a document outlining the benefits of finishing and completing the internal market. This new market would contain 337 million people (now including the East Germans), and

that's a market larger than the U.S. and larger than the Soviet Union. Annual savings from removing barriers to trade and from exploiting economies of scale would exceed 216 billion ecu's. An ecu -- which stands for European currency unit -- is a basket currency made up of a weighted average of all 12 of the currencies of the community members. The name was chosen because it's an English abbreviation, but it sounds French, which is a typical community compromise.

This 216 billion ecu savings -- if it all could be realized -- would represent a gain of 4.2% in the domestic product of the 12 member states. Consumer prices would go down 6% and up to five million new jobs would be created.

European companies who currently do business across national borders spend eight billion ecu a year just on the administrative costs and the delays at the borders, and the governments spend an additional one billion ecu per year just manning the border posts and the customs sheds. Restrictions on the free movement of goods and services costs European consumers one billion ecu every year in increased prices for food. They pay 1.7 billion more for construction products. Automobiles cost them 10% more than they would if they didn't have to meet all the different requirements in all 12 of the different states. Telephone switch gear and locomotives (every country makes their own locomotives) cost half again more than they would if they could get together and produce them for the whole country the way we do it in the U.S.

In the insurance fields Cecchini found that Italians, Belgians and Luxemburgers pay over 70% more for term life than they would have to pay across the border in Holland for the same policy. Even though British consumers pay even less than the Dutch for term life, they pay 90% more for fire and theft coverage on their homes. The Spanish pay 100% more and the Italians pay 150% more for comprehensive automobile insurance than other Europeans, but then if you've ever seen them drive, maybe that's experience rated.

Before the Single European Act, the EC had attempted to harmonize by negotiation the different standards between the countries. For example, the Italians won't accept German pasta because it's made with the "wrong" kind of wheat. The Germans won't accept anybody else's beer because it doesn't meet their definition of what beer should be. French buildings cannot be insured if they're tiled with "inferior" Dutch or Italian tiles. And sealed beam headlamps, which are required in foggy old England, are not allowed on the continent.

After negotiations, the commission in Brussels may issue a regulation -- that's a type of law that the community issues. The first is a regulation which covers everybody and it's generally a technical item like adding soya beans to the list of items covered by the external tariff; or they may issue a directive which is the more common form of law. The directive sets out what the community wants to happen but it leaves it up to each of the 12 member countries to translate that into national law. For example, there is a directive that sets minimum standards for water quality in the community but Britain's water, beaches and rivers don't come anywhere near meeting that standard; the British are resisting the attempts to be forced to improve their water quality. And the commission has taken Britain to court to try to clean up British water to the other European standards.

Or the commission may issue a decision which is directed to an individual or an individual state or an individual country or a company within the country. For example, in 1987, the commission ordered a French textile firm to repay 337 billion French francs in subsidies and aid which it had received from the French government that had given it a competitive advantage over other textile firms in the community.

After 18 years of this negotiation and harmonization, only 177 products had been covered by new directives. One was a safety standard for pressure vessels. Another was an acceptable lawn mower noise level. It took, for example, 13 years to harmonize and negotiate and approve the Nonlife Services Directive, which regulates the sale of property and casualty insurance in the community. New products and standards were being introduced at the rate of 5,000 per year, so the obstacles to trade were increasing faster than the harmonizers could eliminate them.

There are three ways to harmonize. One way is that everybody can agree to the most rigorous standard, which is always the German standard. Another way is to accept a community-wide standard. For example, the Food Labeling Directive says you have to list all the products in food. The third way to harmonize would be to accept each other's definitions and standards and commercial rules as being valid. This is called "mutual recognition."

The Treaty of Rome established a Court of Justice as one of the institutions of the community. And this Court of Justice operates pretty much like the Supreme Court operates here in the U.S. It rules on the provisions of the treaty, and it also rules on the laws and regulations and directives that are passed by the commission. The court which is based in Luxemburg has been very active in pushing along this process of integration that we're talking about.

In its famous "Cassis de Dijon" ruling, the court considered the case of a black current liquor which is manufactured in France. The Germans were refusing to allow it to be sold in Germany because it didn't have enough alcohol in it to be a liquor and it had too much alcohol in it to be a wine. The court ruled in this case that member states could not ban products that are allowed in other member states unless they could prove that the products were unsafe or would damage fair trade, or would create a tax problem. The Single European Act grabbed on to this idea of mutual recognition and combined it with the idea of majority voting on the 179 issues, abandoned harmonization, and as Jacques Delors likes to say, "history began accelerating."

Today with two-and-a-half years to go, the acceleration is very dramatic. This year France and Italy removed the last restrictions on currency in the free movement of capital, six months ahead of schedule. Spain and Ireland have agreed to free their capital flow by the end of 1992, and Greece and Portugal have set a target date of 1995. This year Spain and Portugal joined the European Monetary System, and very recently Britain did too, to everyone's surprise. This only leaves Greece now outside the monetary system and this system ties all of the currencies together so that they don't have these valuation problems between the currencies.

EUROPEAN HARMONIZATION

This year Germany has reluctantly agreed to the idea of a European Central Bank and in December 1990 there's a meeting (set interestingly enough again in Rome) to modify the Treaty of Rome in order to allow the bank to be a created. This is one of those cases where everybody's harmonizing to the German standard because the new bank will be a sort of super Bundesbank. It will be modeled after the Bundesbank, and it will be completely free of any influence by any of the governments. Even Mrs. Thatcher has agreed to attend the meeting in December because the mood in the community is to create an economic and monetary union, with or without England. Jacques Delors has said "Monetary union will put a second tiger in Europe's tank." (The first being the Single European Act.)

Financial services account for 3% of the jobs and 6% of the income in the community. But it's much more difficult to sell financial services across national borders than it is to sell lawnmowers and other products. For one thing, financial services usually require a continuing relationship with the client after the sale, and financial services also involve a much more difficult area of harmonization because of the government supervision and regulation of these services. Banking for example has been an international activity in Europe for some time. Wholesale commercial banking and investment banking are already multinational businesses. The community has approved the Second Banking Coordination Directive which allows EEC banks that meet essential standards for soundness, which will be set in Brussels, to set up branches in all 12 member countries. In those branches, they can offer a long list of financial services including selling securities and insurance. But the most important thing about the Second Banking Coordination Directive is that the banks will be regulated by their home banking authorities, not the host state.

The Second Banking Coordination Directive becomes effective December 31, 1992, and it will have created a much more flexible banking system for Europe and those 337 million customers than we have here in the U.S. The directive is the one that contains that famous reciprocity clause that everybody over here was so concerned about. They were afraid that American banks operating in Europe would not be allowed to operate there unless we allowed European banks to operate here the way they will be able to operate in Europe.

And since we don't have true interstate banking in this country, and since banks are not allowed to own and sell securities in this country, and certainly since those banks will be regulated by U.S. banking authorities, this would have been a problem for American banks in Europe. But they negotiated the wording out and they changed the reciprocity wording to read "effective access." We only have to allow European banks "effective access" to our market, and they never defined what "effective access" is.

In the securities area, directives exist setting out European-wide standards for preparation of prospectuses and for financial reporting. There's a directive establishing qualifications and duties of auditors. And in 1979, a directive was approved allowing mutual funds, which are called unit trusts, to be sold throughout the community. One of the results of this new freedom was that over 600 mutual funds have been established in Luxemburg. Luxemburg has no withholding tax on investment income.

Unfortunately, in the life insurance area, progress has not been so dramatic. The sale and purchase of reinsurance has been allowed since 1964 and increased competition in that area has reduced premiums for reinsurance. The First Life Directive, which was approved in 1979, allows insurance companies to open branches in other countries, but those branches are only allowed to sell products that are already approved in those countries and being sold by the local companies, and they will be supervised and regulated by the host state. Recently the Court of Justice has ruled on several life insurance cases in Europe. These rulings establish the principal that the Cassis de Dijon idea does apply to financial services, that is, each government should recognize the regulators in the other states. But the Court of Justice also recognized two types of insurance customers. One is the large, sophisticated purchaser who is capable of understanding the solvency risk of buying a "foreign" policy. But the second is the individual who stills needs the protection of his local government and its insurance regulators. The court rules that in liberalizing the insurance sector, the commission should first concentrate on the professional underwriting of commercial risk and leave the "man in the street" (or mass risk) business to the locals.

Actually there are two trends affecting insurance in Europe. One is the attempts by the EC to eliminate barriers to selling across borders. But a more important one is the worldwide trend that's fuzzing up the areas between banks and insurance companies everywhere. With the banking directive allowing banks free excess to the whole market and allowing them to sell insurance across national borders, and with the insurance industry being tightly regulated by each individual country, the competition between these two forms of financial services is going to be very, very tough.

A Second Life Directive has been proposed, and they're currently negotiating it. This new directive would actually make it illegal to sell a policy across the national borders. But it would make it legal to "passively" accept business from a sophisticated buyer or from brokers in other countries. But the buyer has to submit in writing that he understands the risk involved and the insurance company has to submit to the local state's regulators a certificate of solvency and also a certificate stating that its own regulators allow it to sell business in another country. In addition, the insurance company is not going to be allowed to advertise other than just publishing its name and address, and the brokers are not going to be able to advertise that they shop around in other countries for the best bargain. This Second Life Directive has been described as a "mouse, moving backward."

The Economist magazine started this "mouse" name calling by describing the Single European Act as a "smiling mouse" when it first was published. But the Single European Act became a "mouse that roared" as it raced toward 1992. Industrialists and businesses in Europe are quick to recognize the benefits of a potential large market. There is a high expectation level among the people of Europe that something dramatic is going to happen in 1992.

There's a great interest in the market in the U.S. and in Japan because it can be a great competitor or it can be a great opportunity for us. Every emerging Eastern European country has already asked to be a part of any enlarged community that is created. Even the Soviet Union would like to join the "common house" of Europe.

The freedoms to establish branches, to sell across borders, to move money will create a dynamic European financial services market for banks, brokerage firms and nonlife insurance companies. Maybe even some progress will be made in the life insurance area before 1991. As we meet here in the "Magic Kingdom" we should never underestimate the power of a "mouse!"

But many problems remain. The countries are very far apart on harmonizing the value-added tax, which is a sales tax that makes up nearly 50% of all the revenue of the 12-member states. And tax measures are exempt from the majority vote provisions of the Single European Act. They still have to be approved unanimously. So any country, and little Luxemburg loves to do that, can veto tax measures.

The countries are even farther apart on excise taxes. Holland refuses to tax tobacco and France refuses to tax wine. And if they're going to eliminate the border posts in 1992, what's going to stop the bootleggers? Already on Sunday night, there's a massive traffic jam across the border from France and Germany into little Luxemburg to fill up for the week on petrol, because Luxemburg has the lowest taxes on motor fuel in the community. The state post, telephone and telegraph companies are probably going to hold on to their monopoly positions in telecommunications. And as long as people continue to die in Britain, it is not going to allow the absolute free movement of people across its borders. In the U.S., we don't have true interstate banking. There are differences in tax regimes between every state and certainly insurance is regulated differently in every state in the U.S. You actuaries design a policy for the market as a whole and then modify it for the differences in the states.

The Europeans are beginning to think of their market as an integrated whole, and this is going to change the way they do business after 1992. Medium-sized domestic firms are going to realize that they're only small European firms and small domestic firms are going to find a whole new market out there for their products when they can sell across the borders.

The year 1992 is a process, not a deadline. It was begun to encourage the Europeans to work together, and they've done so. The process is accelerating because the Europeans are now beginning to think of their market in terms of one big whole. December 31, 1992 will not be the end of the process, it will be the beginning of an integrated European market.

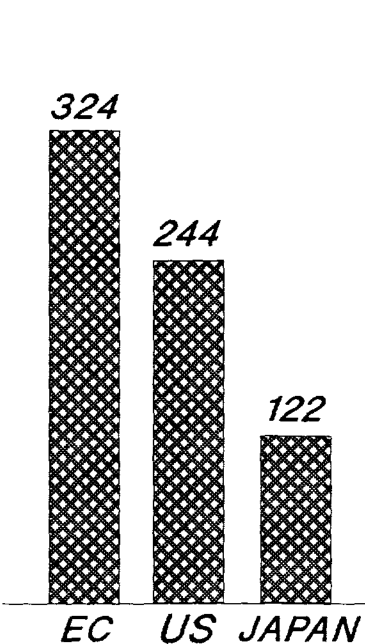
MR. GERT N.W. LEUVEN: I will start with a brief overview of what I would like to tell you. My presentation is cut into two pieces. We felt it might be handy if I presented some figures about the European community first so that you got some idea as to the relative size compared to the U.S., then Camilo will take over. In the second part of my presentation I will talk about the variety of topics such as valuation standards, solvency margins, financial reporting, products and distribution.

Joe already said that the common market is as big as the U.S. market, or it's even bigger in terms of population. If you look, these figures (Chart 1) do not include East Germany yet, but we have more people living in the European community than there are living in the U.S. If you look at the Gross Domestic Product (GDP), it's comparable to the U.S.,

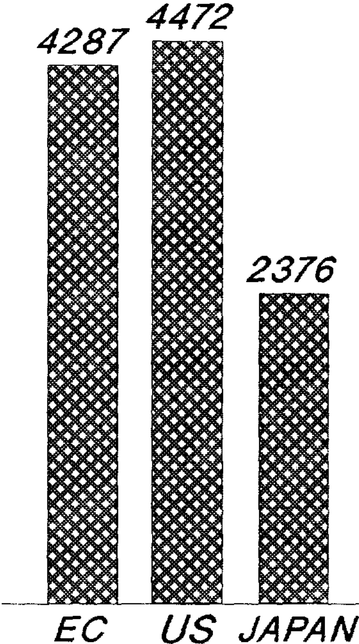
CHART 1

SOME FIGURES

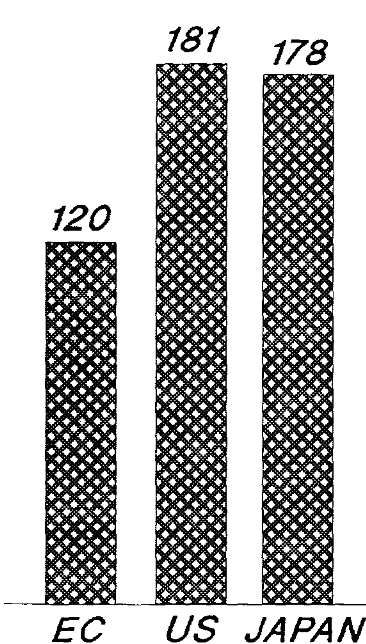
TOTAL POPULATION
millions (1987)



GDP
US$ bn (1987)



TOTAL LIFE PREMIUMS
US$ bn (1987)



and if you look at the life markets on the other hand, that's a lot smaller than the U.S. So I would say to any of you who think of opening up in the common market, there should be more than enough opportunity if you look at the relative figures.

It's also interesting to see the difference with Japan. Japan is relatively small in terms of number of people -- it's only half the U.S. population -- whereas the life premiums are of the same order of magnitude. It we look at the European countries (Chart 2), I've made a split of the total premium income on the life market which is approximately 120 billion. You'll see that the U.K. eats up a third of the total, then Germany (D) and then France (F). The top three countries are where 75% of all the life premium income is being underwritten, so the rest of the markets are fairly small. Next is Spain and then The Netherlands. In the rest of my presentation I will concentrate on the three countries and on The Netherlands as well. I have some sort of a bias there.

Another interesting figure, I think, is to look at what we would like to call the life insurance penetration (Chart 3). That is the amount of premium income expressed as a percentage of the Gross Domestic Product. Here you see there are quite significant differences. The U.K. has just in the order of 6%, followed by Spain, The Netherlands, France and Germany. The Mediterranean countries, which are not on the chart, are highly underdeveloped in terms of market penetration. Also if you compare the U.S. to this one, I would say that there is some room for growth in the U.S. market. Here you can see what was shown previously; Japan has by far the highest penetration. Remember that we've seen Japan had the lowest population, but has a market size which is about equal to that of the U.S.

FROM THE FLOOR: Is that individual policies?

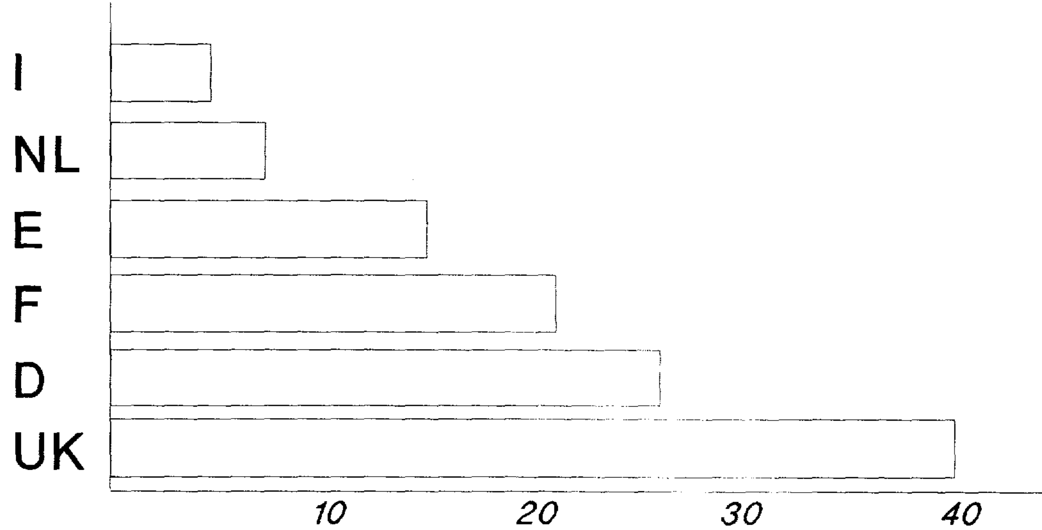
MR. LEUVEN: That's individual and group.

MR. CAMILO J. SALAZAR: As Darryl mentioned, I spent some years in Europe working for AIG (American International Group). We have been in Europe in different degrees and at this point in nine of the 12 European countries, part of that economic community and Switzerland. I'm going to try and cover some of the ideas and pitfalls, and some of the "no's" as to why Europe is not going to become so easily a U.S. of Europe as opposed to some of the "yes" reasons Joe presented earlier.

To give a little bit of feeling as to what it means to live in Europe or to operate in Europe, when we moved with my family we took a barbecue grill, a typical Sears gas grill, because we like barbecuing. We got to France and it turned out that they have a different standard for gas tanks so we had to cut the hose and try to install the French adapter. After getting the permission and putting a deposit, we finally were able to barbecue at home. Then we moved to Spain two years later, and Spain has a different standard for gas tanks. So again we had to cut the hose and go through the local authorities and request the permission and gave another deposit to install a different kind of gas grill tank so we could operate it. And to some extent that tends to happen not only in some of the products that have been already simplified or harmonized, but in a lot of your daily life as well as in business life. I'm going to try to give you just a general idea as to what it means right now to harmonize in Europe and what some of

LIFE PREMIUM PER COUNTRY

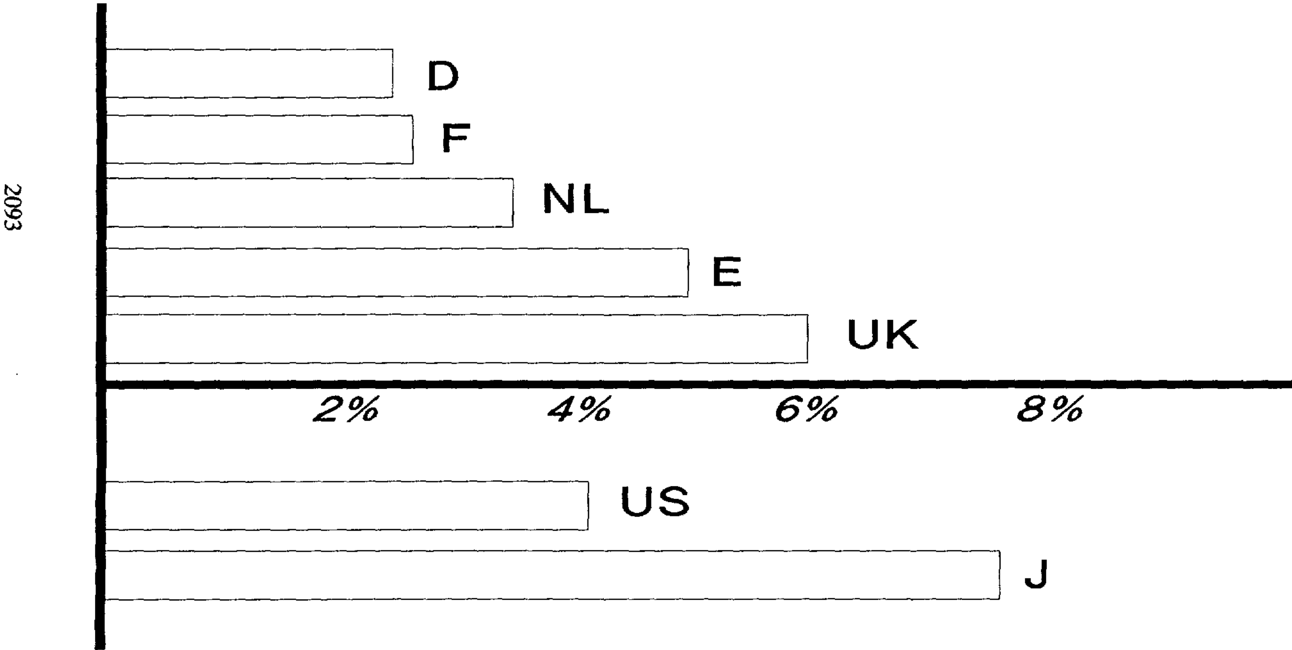
EC LIFE PREMIUMS 1987
US$ bn



LIFE PREMIUM PER COUNTRY

LIFE ASSURANCE PENETRATION

Premiums as a percentage of GDP (1987)



the obstacles or difficulties are in accomplishing that. I'm going to include Switzerland for practical purposes within the context of the question even though Switzerland technically is not a member of the European Community, and therefore is not subject to some standards or to some regulation. But a few important facts must be kept in mind when trying to draw a general picture of the landscape there.

First and foremost not all European Community members have achieved the same level of economic development. Portugal and Greece are very poor countries. On the other hand, Germany, France, and the U.K. are highly developed. Therefore the levels of sophistication of each respective life insurance market vary greatly. The level of government control and supervision of life insurance companies also varies from country to country. Interest rates and investment opportunities vary greatly from country to country. Taxation requirements, as Joe mentioned, are also different. Some countries have life premium taxes, some others don't.

There's no unified currency at this point. The ecu might be an exception in the near future. If you try to put this in the context of the U.S., imagine if Alabama had one currency, and Florida had a different one and Illinois had a different one, and there's not a clear way to communicate among currencies.

Very importantly, there are at least nine different languages and not everybody necessarily speaks each other's. So if you think in terms of trying to put together a product that can operate in Europe, you have to think about nine different languages with their nine different local idiosynchrosies and ways of saying the same thing. And that's not going to be regulated anytime soon. They haven't come up with anything like a common language.

In some European countries competition within the life insurance industry is basically not existent. The government does not allow it; the government regulates very strictly what you can do, what you can charge, what you can pay in commission. Any attempt to liberalize that status quo will be seriously opposed at the local level by local companies.

In trying to illustrate some of the these points, consider for a minute that for instance risk-free money is about 7% in Switzerland, 14% in Spain, 25% in Greece, and about 12% in the U.K. So again, try to put that in the context of the U.S. where you can invest in the bank in Florida at 25%, but if you go to Georgia it's only 7%, but if you go to Illinois it's something else; it creates some problems there.

There are significant differences in prices today between countries. When compared side by side for example, a typical 20-year term policy in Italy will cost about twice as much as it could cost in the U.K. for exactly the same product, the same coverage. And again population statistics or population mortality would not justify the difference alone, so there are other factors in there.

Traditional risk products are almost nonexistent in Portugal. Unit link products dominate the U.K. market. Single premium financial products form a substantial portion of the life insurance market in France and traditional endowment and deferred annuity

products are the core of the market in Greece. So again, there are vast differences between these countries.

Although most countries are considered to be "tariff countries" (therefore the insurance authorities literally dictate the products that you sell and what rates you charge), there is a substantial degree of differentiation from country to country as to how closely these tariffs are enforced.

It takes several months, sometimes years, to get approval for a new product in Italy or Greece, in which all 20-year term products in the market charge exactly the same gross rate at each age. The only level of differentiation might be in the level of dividends or profit sharing which is charged. And that is also narrowly defined in the tariff itself. So there is very little "wiggle room" for product differentiation. In contrast, formal approval is not required in Spain or France. You submit a technical note with some literature of the product and that's it. You are, however, expected to be able to substantiate any assumptions that you have built into your product.

Modified reserves (Zillmer typically) are allowed in some countries -- the U.K., France and Greece -- but not in Spain. In Spain it has to be net level, and they don't allow any type of modified reserving system. There are premium taxes on life products in France but there are none in the U.K. or Spain. So again who's going to give in at the time of harmonization? Distribution systems also vary from country to country.

Financial institutions and brokers channel a substantial amount of business in France but are relatively small players in Greece or Spain. In many continental European countries, if the market is open to other European and non-European life companies, many local companies will be forced out of business as protectionist barriers come down. We will talk a little more about that.

Again the social perception of insurance varies from country to country. To bring it close to home, in France there's basically two elite schools that produce actuaries, but it is not the "in" thing to work for insurance companies. The top actuaries go to work for banks. If you got a C-average, then you go to work for an insurance company. So again it's a different perception all together. There is no formal actuarial education/training as we know it in Canada, U.K. and The Netherlands in the rest of Europe. Basically you come out of school with some kind of degree and if you have taken a semester of life contingencies, let's say, and that's it, you're an actuary. In Belgium there is a very low per capita penetration of life insurance in part because the comprehensive social security system addresses a lot of those needs, so the market just doesn't have an opportunity there. In The Netherlands, life insurance is bought as an effective tax-free means of saving for old age. Consequently, the policyholder is more interested in the savings element of any product than in the risk element. Germany has perhaps the most protected and regulated insurance market in Europe.

Convoluted life and term products are basically all you can find there. And when I say convoluted, they are very, very convoluted. We'll talk about that a little later.

Despite these market differences there are, however, some features that are common to several European markets. One of the similarities is the concept of profit sharing. Although applied differently in each country, the general idea is to participate the policyholder in the investment and/or underwriting profit obtained by the company each year. In most countries an amount is credited to the policyholder at the end of the year. This normally is a percentage, typically 90% of the excess yield obtained over the technical, or guaranteed interest rate on the reserves. For example if the guarantee rate is 5% and the reserves are invested at 12%, the profit sharing credit will be 90% of the differential, 90% of 7%, which is 6.3%. Therefore the reserves would grow at a total rate of 11.3%. The profit sharing concept in Germany also includes participating the policyholder on up to 90% of the underwriting profit. If you have mortality gains, you have to pass that on. And some of the expense profits also have to be passed on. The department defines an average for mortality, and if you're above that you have to give 90% back. If you're under, tough.

Another feature common in most European countries, by its absence to some extent, is the lack of actuarially sound pricing and profit testing techniques in the North American sense. With the exception of the U.K. and The Netherlands, profit analysis for new or existing products is very rudimentary and is not founded on asset shares or Anderson's method theory. And again some of this has evolved because of the lack of need for that; the government's telling you how much to charge, so what's the use of doing profit testing? Insurance regulations make this exercise academic to a large extent as very little differentiation in rates is permitted in some countries. General population tables are used for both valuation and pricing. The insurance commission or its equivalent will determine what population mortality table to use, whether it's from the same country or another European country, what technical interest rate to use and what loadings are acceptable for expenses and acquisition. Rates are developed simply by grossing up net premiums after using these loadings. The only level of differentiation between the same type of product among several insurance companies is given by the profit sharing percentage offered, although in some countries this one is limited as well to at least 80%. So not only are your gross rates going to be the same, but you also have to give at least 80% of your profit sharing away.

With the exception of the U.K., select and ultimate tables do not exist and profit testing analysis is not applied. It is assumed that enough underwriting profit is embedded in the rates by using population tables and, to the extent that loadings allowed for expenses are higher than actual operating and acquisition costs, additional operating profit is generated. Investment income is therefore not really considered an additional profit source since most of it is passed to the policyholder.

Now I'm going to turn to what it takes to put together a product in one specific country, and my experience has been in Spain. As mentioned, the level of product innovation allowed within the tariff approach varies from country to country depending on how strictly the tariff is enforced. Spain for instance allows a fair amount of flexibility. Spain does not require you to seek approval for a product. You just file and unless they scream, the product has been approved. You do have to substantiate your assumptions, but you're not constricted to how much you can charge or what mortality table you can use, within reason. You can allow any expense assumption both for acquisition or

operating expenses unlike countries like Greece where commissions are tightly regulated. Commissions can be determined freely by the company. Life insurance products in Spain encompass a fairly wide selection -- there's whole-life products, term, endowment, individual pension annuities, single premium and deferred annuities, dread disease is coming into the market, personal accidents, credit insurance and even a couple of universal life policies can be found in the market. On the group side, experience refund products are basically the standard, and group pension products that border on being purely financial are actively marketed.

The profit sharing concept mentioned before is found in many products, but unlike Germany, it does not include underwriting profits, strictly investment profit only. And it is not necessarily related to segregated assets related to the portfolio of policies in question, but rather to the total assets supporting the ordinary life business. Perhaps because of the popularity of the profit sharing concept, universal life products are not popular in Spain. One or two companies have come out with universal life products, and they really haven't done much with them.

We recently introduced a dread disease rider, and there are two or three companies in the market now also introducing the accelerated benefits and dread disease riders. These products have been introduced so recently that there is really no experience yet to determine if it's going to be a growing market. The initial reaction in the market has been positive. Currently, living benefit-type products are very active in the U.K. and almost nonexistent in continental Europe. In the development of our dread disease product, we relied on French statistics, for instance diagnosis incidence for all diseases covered. Since the concept was so new to the market, we discussed with the local authorities the concept and the statistics that we were going to use and the validity of that data in order to obtain informal feedback before full development.

In developing a new individual life product, you start by using one of the tables allowed, the GKM-70 or 80; I believe these are Swiss tables, at 4.5% or 6.5%, somewhere in that range. Prior to these tables, the Spanish authorities were recommending a French table, the PM6064 which is the only table that is currently allowed in Portugal. Portugal does not allow you to use any other table. Then net level premiums and net level reserves are developed based on commissions, typically to be paid over 10 years. An average level commission loading expressed as a percentage is developed. An expense loading per thousand of premium is developed and a simple formula of gross premium equal to net premium plus expense loading for maintenance divided by one minus the percentage for acquisition produces the gross premium rate. Most likely a profit sharing feature will be included in the product, although as seen before, it does not necessarily enter into the development process. Having filed the appropriate technical note with corresponding formulas and policy forms, the technical development is complete. Notice that in this development there's no mention of lapses, solvency margins, age distribution, average premium, face amount, fixed cost, etc. None of these factors enter the product development process. The framework in which product development takes place renders these issues and the need to do profit analysis almost irrelevant. By the same token, critical profitability measures such as return on investment, profit margins, profit spreads, break-even year and initial strain are not tracked, and sensitivity analysis and downside risk analysis are not performed. What I'm saying, in a general sense, is that there are

perhaps, U.S. companies that operate or foreign companies that do these kinds of practices, but the local market by and large does not know or does not have the tools to do this kind of analysis.

Over the last three years, we at ALICO have introduced profit techniques and analysis to our European operations and have incorporated into them those features that apply to the European market, such as solvency margins and profit sharing and so on. Solvency margins are defined in terms of retained versus reinsured reserves and net amounts at risk and for riders solvency margins are expressed in terms of percentage of premiums. To the extent that free capital or surplus is not available, solvency margins must be considered as an additional cost in the profit analysis. Solvency margin requirements are at this point an EEC standard by which all member countries abide with the exception of Switzerland, which is not a member.

Now despite all these obstacles or difficulties in entering the European market, why does it make sense to ask for the U.S. companies to look at Europe? The insurance regulatory bureaus in Europe are under a lot of pressure to allow their markets to compete more openly and efficiently before 1992 as they realize that their protected markets will be exposed to tremendous influence from other companies in Europe, specifically the U.K. They're very concerned about the U.K. coming in and wiping them out and you can see from Chart 2 the extent of the U.K. market as compared to the European market. Again Italy pays twice as much for a level-term product as the U.K. pays.

If harmonization goes to its full extent, none of these companies stands a chance. Italy, Greece, and Belgium are already starting to move in the right direction and sometimes kind of suddenly. Last year Italy suddenly cut its tariff in half. But it is not easy to reverse years of government protection, upsetting a regulated balance just at a snap of a finger. In general the life insurance industry in continental Europe is concerned with the potential adverse impact that the dismantling of economic barriers may have on their respective markets, specifically what the U.K. companies might do in terms of sophistication. Not only could they come in and price an endowment product competitively, which is a staple in the market, but they will come in with new concepts, such as dread disease, unit linked etc. that are completely foreign to their local markets. It is recognized that the U.K. market is substantially more sophisticated than the rest of the continental countries and this harmonization process is creating significant concern that the U.K. companies will eventually dominate the continental insurance market. They will be able to complete much more efficiently. It is expected for instance that the fall in prices for financial services, including insurance, will be around 20% in Spain alone.

In all these analyses, U.S. life insurance companies are not pictured at this point. The concern is always in terms of other European companies, big companies like Allianz or companies in the U.K., but there is never concern that Prudential or Metropolitan is going to come in and hit them. The U.S. is pretty much absent at this point in that context, and traditionally they have lagged behind other products and service providing companies in the participation and involvement in foreign markets, specifically in Europe. The reasons that drove this lag in the past, namely good opportunities at home here in the States and small protected markets abroad, are changing, forcing many U.S. insurers to consider the international market.

EUROPEAN HARMONIZATION

The investment community is functioning more and more on an international scale. In Europe, improved economic and regulatory environments have led to substantial growth in the financial markets and merger and alliance activities.

As U.S. insurers consider potential European opportunities, they might be unaware of some of their strengths relative to the markets they are considering. Despite the differences in culture and regulatory landscape, there are some assets that U.S. insurance companies do have based on their experience here to operate in Europe. Some of the strengths are: a proven ability of building and maintaining an agency network, which would be essential as pan-European financial marketing and distribution channels emerge; asset/liability management capabilities are basically nonexistent in any sophisticated way in Europe; broad experience of U.S. insurers with underwriting and processing systems; experience with economies of scale in operations and marketing and with multiple state regulatory frameworks. Even though we still have one language and one currency here, most companies can deal with 50 different regulatory agencies. In Europe, you would have some of that again with a couple of more variables in their language and culture.

Opportunities exist in Europe today for U.S. insurers. At the same time, the economic integration process will not be completed by December 31 as originally ambitioned in 1992. The Second Life Insurance Directive, as Joe mentioned, has been diluted significantly to the extent that it really has lost all its punch. This is in response to concerns from other member countries who want to protect the domestic life insurance industries; it's not difficult to see. It's funny, in the last 20 or 30 months, as more directives have been approved, and more of these products are being covered, more and more lawsuits have been going the way of the European parliament, accusing the countries for dragging their feet or for not implementing what they have agreed to do. And that will continue to snowball to some extent. Under the First Life Insurance Directive, we at ALICO had anticipated initially taking full advantage of its provisions to be able to market pan-European products since we are under one name in nine countries. But today when asked how a company like ALICO that operates in several European countries expects to develop a pan-European product that will be marketed throughout Europe without the distinction of nationalities, I respond that, in the near future, the only common element to such a product will mostly be the name and the color of the brochure, because from that point on it will be completely different.

To close, Europe has become strategically a very important life insurance market with over 320 million people and relatively low penetration of life insurance products. Regardless of the pace of change, change is taking place in Europe faster than ever before; even more so now with the opening of Eastern Europe which has created a new sense of urgency towards economic integration in Western Europe. As advances in technology make international financial markets more accessible, and opportunities at home become more difficult to find, leading U.S. insurers must consider and prepare a presence in international markets in order to maintain such leadership. This will require their ability to access both customers and investment opportunities around the world. The time has come when U.S. insurance companies can't afford to exclude themselves from Europe.

PANEL DISCUSSION

MR. LEUVEN: So far you are wondering what we have in common in the EEC. Hearing about all these differences in culture and whatever, I think there is one thing we have in common -- that's diversity. If you've understood so far, you've been listening well. We have diversity and control, valuation standards, financial reporting, products, distribution, you name it. You learned we have diversity in currencies, which is different than the U.S, and we have diversity in languages.

TABLE 1

Common Characteristics EC

Diversity

- Control
- Valuation Standards
- Financial Reporting
- Products
- Distribution

As I promised a little earlier I will concentrate on the larger markets and include The Netherlands because of my own personal bias. This is a brief overview of what the regulations are on premiums, bonus regulations and the distribution channels (Table 2). If you look, and this is not a new factor, Germany is by far the most regulated market. Control of premiums is very high, because all of the calculation standards are set by the government. Bonus regulations are very high. Distribution channel control is medium, relatively speaking of course. The U.K. together with The Netherlands are the most liberal markets. They both have virtually no control over premium rates and bonus regulations. The U.K. introduced the Financial Services Act a couple of years ago which is regulating part of the distribution channels. In The Netherlands there is hardly any control on distribution channels. In France it is an in-between position with medium control on the premiums, medium control on distribution channel and relatively high on the bonus amounts.

TABLE 2

Control Overview

Country	Premium	Bonus Regulations	Distribution Channel
U.K.	None	None	High
France	Medium	High	Medium
Germany	High	Very High	Medium
Netherlands	None	None	Low

If we move on to the valuation standards (Table 3), there is something very peculiar there. If you look at the mortality tables which have been used, the U.K. is the only country where there is an assured -- I understand you call it insured lives -- table, but we would rather say assured lives (AL). All of the other countries use population tables (P).

There are simply no reliable statistics in most of the countries on the mortality of assured lives. Although there are some statistics I would say they're probably not reliable. The tables, as you well have gathered by now, are different in each country.

TABLE 3

Valuation Standards

Country	Table	Interest	Method
U.K.	AL	*	Zillmer
France	P	4.5	Zillmer
Germany	P	3.5	Zillmer
Netherlands	P	4	Net

The same goes for the interest which is allowed. To start with The Netherlands, in practice, you should calculate the reserves on a rate of interest of 4%, that is for renewal premium business. For single premium business, you can go higher. In Germany, I think it's the other way around. I think Germany is 3.5 and France is 4.5. The U.K. is the more liberal one there. For the single premium business, it's something like 92.5% of the yield you will be able to get on your assets that you've demonstrated. For future premiums you should come up with a lower rate of interest which is in the order of 4.5% again. The most common methods in three of the countries is Zillmer reserves. In The Netherlands most companies would reserve on a net reserve basis, although Zillmer reserves are allowed to a limited degree.

For the solvency margin we are the same throughout Europe. You see rules prescribed that life insurance companies have a solvency margin which basically equals 4% of the mathematical reserve plus three per thousand of the sum at risk on death. There are some exceptions if you have unit-linked products, unit-linked type of products, or products where the investment risk is borne by the policyholder; then the 4% goes down to 1%. You can deduct any reassured business up to 50% of the total solvency margin. For shorter durations, the three per thousand sum at risk is slightly diminished. But this is one of the very few items where we have the same standards.

There are some peculiar things about this which should be mentioned. If you look at the formula, the 4% of the reserve and the three per thousand of the sum at risk, then this comes down that the solvency margins which are required by the government are proportional to size. Now if you look at it from an actuarial point of view, there's not much logic to having solvency margins which are proportional to size. They should probably decrease with increasing size, relatively speaking. There's also something funny, and that's the effect of the reserve basis. If you have a really weak reserve basis, then your required solvency margin goes down. So it doesn't seem to work out in the proper way. The third thing to consider is what's called the implicit margins. If you reserve on a net basis rather than on the "Zillmerized" basis, you can take into account the difference as some sort of an implicit margin and add it up to the solvency margin, which is available, so that when you are at the earlier stage you have the solvency margin required. But then comes the use and practice. If you look at the Dutch market, which I'm most familiar with, I think that the top three or four, maybe five companies have a

solvency margin which is anywhere between 8% and 12% of the mathematical reserves. Now if you add the 4% plus the three per thousand, this would add up on average to 5%. None of the larger companies in Holland would dream of going for the 5%. They think that from a marketing perspective they can't live with the 5%. They would be looked upon by the market as having only a minimum solvency margin, and that's not the way they would like to present themselves. So despite the fact that there are some common rules, the way they are being used is again totally different.

Another area where I've been asked to make some comments is on financial reporting. Now that's easy because that varies enormously by country, and I'm not going to bore you with any of the details. There is an EC directive on its way which is supposed to be there in 1992, but which will probably be delayed a couple of years as most of these directives come in fairly late. You can understand why because we have enormous problems in harmonizing these things. The differences are so enormous and obviously there is a lot of political pressure on all of the regulators to come up with what their country thinks is best. If you think of harmonizing, for example, the German standards with the U.K. standards or the Dutch standards, it seems like an impossible task.

Camilo said something about the products, especially about the profit testing, with which I partly disagree. Profit testing is done in some of the countries, at least if they use the proper consultants. Here is a look at some of the main products (Table 4). If you look at lump sum products that are pure savings, that is savings in the form of traditional endowment products, you will find them to a fair degree in the U.K., to a very high degree in France and you would hardly find them in Germany or in The Netherlands. This has to do with the tax regulations, mainly. If you look at the other end of the spectrum (the pensions), in The Netherlands you will find a lot of pension business which could probably be described as SPDA (single premium deferred annuities) business in U.S. terms. The reason for us not putting it in the lump sum column is that it's mainly pensions, and it's not a pure endowment type of policy. In Holland we are in the fortunate situation that up to now you can deduct quite substantial amounts for your income tax purposes if you invest them in some sort of an individual pension. The mortgage market also shows quite significant differences. It is well developed in the U.K. and The Netherlands and hardly there in France and Germany; that is to say there are more cases linked to endowment policies. The protection market, which is the whole life or term business, is relatively strong in Germany and The Netherlands and sort of average in the U.K. and France. The regular market, that's the regular premium paying endowment policies, is very strongly developed in Germany. I think something like 80% of all new business underwritten in Germany consists of regular premium paying endowment-type of policies. Again this has to do with all the tax laws and everything.

TABLE 4
Main Products

Country	Lump Sum	Regular	Protection	Mortgage	Pensions
U.K.	+	0	0	+	+
France	+ +	0	0	–	+
Germany	–	+ +	+	–	–
Netherlands	–	0	+	+	+ +

It may be nice to have a quick look at whether there are any nontraditional products available in these markets and how well developed they are (Table 5). The U.K. has been quoted a couple of times already. In the U.K. the market is heavily dominated by the unit linked products. In France they also have some very typical savings products where there is hardly any risk element added to it. In Germany they're not there, and they're not allowed, as far as I understand, by the local authorities. And in The Netherlands, over the last 10 years or so, we have seen quite a number of foreign companies, especially the English ones, coming up with unit-linked products in the market. It grew slowly, but recently the top two companies have introduced unit-linked products as well. You can expect, because of these reasons, that they will really rocket off in The Netherlands, now that the large domestic companies are going to sell unit linked. So there are quite a few developments over there, and the Dutch market is especially influenced by the U.K. market.

TABLE 5

Nontraditional Products

Country	
U.K.	++
France	++
Germany	–
Netherlands	+

One of the questions that has been asked of me is what is the impact of the removal of trade barriers on the distribution and on the products. So I ask myself the question, Why would people buy life insurance? If you look at whether the removal of the trade barriers will have any impact at all, I think you should first look at the reasons for buying: availability/distribution, tax, culture. Of these three, I think one of the more important is simply the availability of the products, which depends on how well developed distribution channels are in a particular country. If there are no well developed distribution channels, no one is going to buy life insurance.

The second one, probably equally important, is the tax situation in the given country of issue. Remember in the previous chart about the various products, all of these products are specifically geared to the tax situation in a particular country. I have a nice example from a Dutch product. With the Dutch tax laws you can deduct any interest you're paying on any debts or mortgages or whatever and any interest gains on life insurance so far is tax exempt. The companies have, I think two or three years ago, come up with a new sort of mortgage and endowment combination where the interest on the policy form was related to the interest on the mortgage with a difference of one of two percentage points. Because of the tax situation, the higher the interest you pay on the mortgage, the lower the net rate, and you can basically borrow money with this construction at a net rate of interest which comes close to 0% in The Netherlands. But I don't think this would be possible in any of the other European countries.

And a third, but not unimportant item in the products and the reason for buying is simply the culture -- what has been there historically. For example most people believe

that unit linked in The Netherlands can't be sold because people have been very traditional, didn't want to take on a lot of risk, and they simply wanted to save the money, put it in the bank at 3% or 4% or whatever. It has to do with the culture and with the availability of the product.

So what will the impact be of the removal of trade barriers? I'll give you the answer and I think you'll see hardly any influence. If you look at the tax situation (Table 6), there are two important items. The first is the VAT (value-added tax), which comes on all the products. You can see these are the highest rates we have (Netherlands). There is a whole system, depending on the sort of goods, whether the rates are high or low, but there are still some differences. It's even worse in the income tax situation. This is the marginal rate of income tax. In The Netherlands, you pay, if you earn enough money, 60% of any additional guilders you will have as income. It used to be 72%, to frighten you off. On the other hand, we have this tax deductibility of interest and we don't have capital gains tax for private persons. So it's not as bad as it looks. The U.K. system is only 40%, in Germany and France it's somewhere in between. The general tendency however (that's one of the reasons for the government to lower the income tax), is to bring it down to get closer to the other markets, although it seems unlikely it will ever get as close as the 40% in the U.K. So if you have these differences in the tax system, you can understand that if there are no trade barriers anymore, from this point of view, it's not going to influence the products whatsoever.

TABLE 6

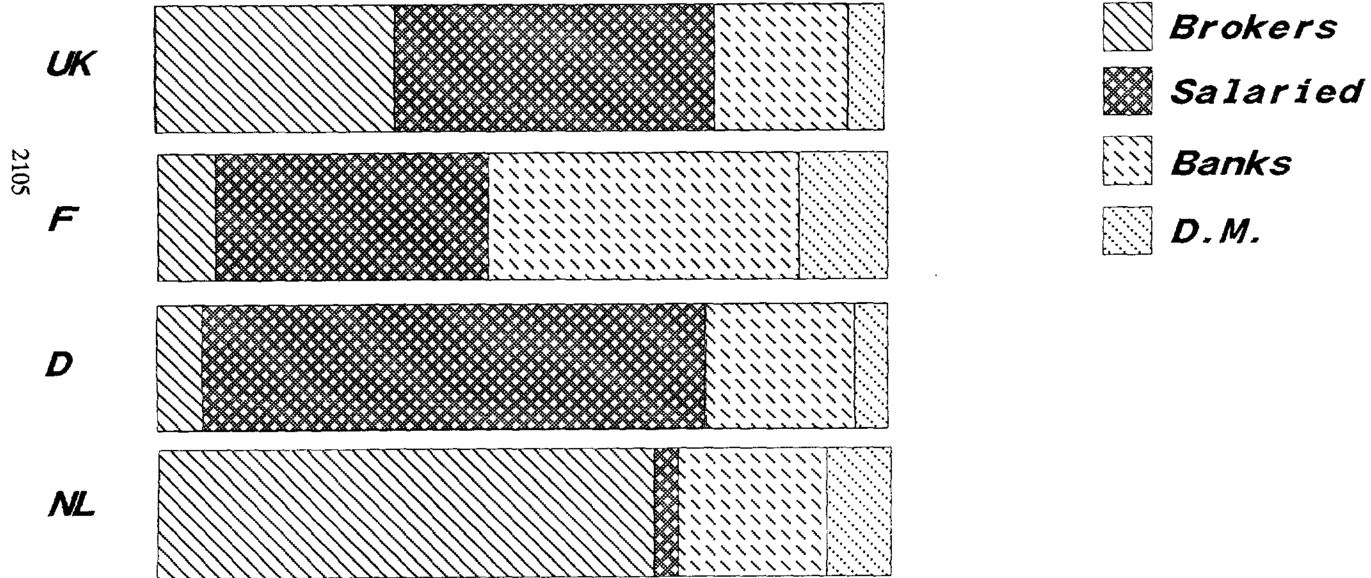
Taxes

Country	VAT	Income Tax
U.K.	15	40
France	18.6	56.8
Germany	14	53
Netherlands	18.5	60

Let's now look at distribution (Chart 4). Again diversity, I think that keeps on being the common theme; diversity in the distribution. If you look at The Netherlands to start at the lower end, it's something on the order of 60% of all new businesses that are being sold through independent brokers. That means people have a definition of independent brokers and independent agents that varies slightly over the countries. It is those people who sell business for more than one company and come up with independent advice. If you look at Germany for example, the majority of the business is being sold through salaried field forces who get a salary and a commission on top of that. You can understand that if you want to go into a market as a foreign company in a country like Holland, it is a lot easier to enter than it is in a country like Germany. The entry barriers, in terms of investment, are a lot less in Holland than they are in Germany, since there is a well-developed distribution channel which you can simply use. If you raise the flag and say, "Here I am, I pay the highest commission of all," you could enter the market, whereas in Germany you would have to build up your own field force, which is quite an expensive exercise. In the U.K., there have been some recent changes because of the Financial Services Act, and they have to give the best advice. There has

DISTRIBUTION

TOTAL NEW BUSINESS PREMIUMS BY SOURCE



EUROPEAN HARMONIZATION
CHART 4

been a total reshuffle in the way that the life insurance is being distributed. And there has been a shift towards the salaried field force. In France it's quite interesting to see the relatively dominant position of the banks. Banks by the way are a distribution channel which will probably be of increasing importance throughout the whole of Europe.

This leads me to the trends in the distribution. Again they have nothing to do with the removal of the trade barriers, at least not to my belief. One of the more important trends throughout Europe are the banks. Banks and insurance obviously are getting closer and closer together. They have been acting as distributors of life insurance in a number of countries; now you see that strategic alliances are being formed. In the U.K., notably, companies which have been aligned or have an exclusive arrangement with one of the banks have shown the highest growth. We see some interesting examples of those in The Netherlands as well, and it's expected that the banks will have an ever increasing influence.

The concept which I personally find very interesting is franchising. We see this in The Netherlands, it's a sort of McDonald's-type of franchising where someone comes up with a common name and something of a common marketing concept, and then you can join the party and become a franchise, or independent broker.

And last but not least is probably why a lot of the companies are struggling to combine various distribution channels. Again, by an example from The Netherlands, if you are an independent broker company, you are forced at this point in time to stay with the brokers. Companies in practice, at least, would very much like to combine it with direct marketing or with banks who have their own field force, but then the brokers might run away from the companies and they don't like that. I think that if you can combine the various distribution channels, that you are much better off. But again, I don't think that has anything to do with the removal of trade barriers, because it's too different in all of the countries, which leads me back; it's diversity, diversity, diversity all over the place.

MR. JOSEPH F. KOLODNEY*: A couple of questions. Do you feel that one of the reasons why products haven't developed in Europe is simply because it's not so much culture, but that the companies just aren't disposed to providing any product differentiation that's truly competitive because it erodes their profit margins?

MR. LEUVEN: I think that depends very much on the local market. If you look in Germany there are so many regulations and restrictions that it is nearly impossible to come up with something new. If you look at the Dutch markets, there has been quite a lot of product development but that depends very much on the position that the company has. We have companies which have a very large market share, 30% or whatever. It's obvious, if there are new products, unit linked or universal life, with lower margins than the more traditional ones, that these companies will be lagging behind the smaller ones in introducing new products on their home market. Yes, that's absolutely true.

* Mr. Kolodney, not a member of the Society, is Senior Vice President of Thomas A. Greene & Company, Inc in New York, New York.

MR. KOLODNEY: The solvency margin at 4% and three per thousand -- does that apply also to term insurance products?

MR. LEUVEN: Yes.

MR. KOLODNEY: So there's an inherent discouragement of marketing protection if you have to put a reserve of three per thousand on the term contract, right?

MR. LEUVEN: Yes, although, I must agree with Camilo that a lot of the companies are not so sophisticated that they take into account the cost of the solvency margin in the pricing of their products.

MR. SALAZAR: If they operate with substantial free capital, they don't have to worry about the solvency margin as long as they can say, "Yeah, we have enough," because solvency margin doesn't affect the balance sheet. You just have to know that you have it there. So if you have free capital to some large extent, like some of the big traditional ones, they will have plenty of free capital. That's not a consideration for them.

MR. KOLODNEY: So don't they have to keep kind of a different set of books?

MR. SALAZAR: Yes, they do have to report their position. In Spain you have to report the solvency margin position on a monthly basis; but it's kind of in the back of their minds. For example, we have $200 million of surplus and we have to set up 10 of solvency margin, so we're okay.

If some of the companies operate right on the line with just enough capital to be solvent, then the solvency margin becomes a very critical issue, because you can't go out and sell a lot of business tomorrow unless you are getting an infusion of capital. So to that extent it becomes a consideration in the pricing of the product, where your position is, so it varies.

MR. KOLODNEY: Now, I know in the U.K. that no matter how much you reinsure you can't take credit for more than 50%.

MR. SALAZAR: There are two pieces to the formula. You can take up to 85% in the reinsurance picture and the 4% of the reserves. In other words, the formula is 4% of your reserves and the maximum of your net retained after reinsured reserves or 85%. And on the per thousand side of the formula, it's up to 50% and the three per thousand varies by the duration of the product. If it is a 27 whole life product or more than five years it is three per thousand; if it's between three and five years, it's 1.5 per thousand and if it's annually renewal term it is one per thousand.

MR. JAMES B. SCHOEN: This is for Joe. You spoke of some figures in ecu's. I was just curious as to what the relative value of the ecu as opposed to the U.S. dollar is. Do you have any idea?

MR. EMORY: Yes, an ecu is slightly more than the U.S. dollar, but at the rate the dollar has been falling in the last week, it's getting stronger and stronger.

MR. SCHOEN: Is the long-term trend going to be for a unified currency through Europe 10 years from now? Twenty years?

MR. EMORY: At the December meeting, one of the things that they're going to address is an economic and monetary union and creation of a single bank. A single European central bank is only the first step in creating that. The second step will be for that bank to take over the holdings of all the central banks in Europe and to actually issue a single currency, but that's not very likely.

MR. SCHOEN: It's a long time off?

MR. EMORY: It's a long time off, yes.

MR. SCHOEN: Okay, I had one more question. Early when the talk of 1992 was coming in, it seemed to be urgent that companies were established prior to December 31, 1992. Is that still the case, that they would need to be established? Is there an open door right now that will be closed at that date?

MR. EMORY: Are you talking about insurance companies?

MR. SCHOEN: Insurance companies or any kind of commerce that, for the U.S. to get in, they needed to be in by that date, at least in one country. And from that point on, if they could be established in one country, they could pretty much have an open market after that. But if they didn't get in by that point it would be much more difficult. Is that true?

MR. EMORY: Well, I think what your referring to is the fear of "Fortress Europe" being created by the 1992 regime, and I think the trend right now is pretty clear that that's not going to happen. Europe is going to be as open as it is now. There's not going to be a cut-off date or a closing of the market.