

## GOVERNMENT REGULATION OF THE INSURANCE INDUSTRY

M S MORRIS, Under Secretary

Department of Trade

1976 is a bi-centenary year of the American Declaration of Independence, a landmark in man's political development. But not only political. 1776 was a period of social and economic change with its own problems - some of them not as unfamiliar as one might expect. Sheridan for example, commenting on the introduction of the waltz, remarked that:

"Females, with unblushing face,  
Disdain to dance but in a man's embrace,  
While arts improve and modesty is dead  
Sound sense and taste are like our bullion fled."

An indication that balance of payments problems existed in those days also. But then Sheridan was at one time a Treasury Minister.

1776 saw the publication of the first volume of Gibbon's "Decline and Fall of the Roman Empire." And it also saw the publication of a book by a former professor of moral philosophy at the University of Glasgow. The name of that professor was Adam Smith and the name of that book "An Enquiry into the Nature and Causes of the Wealth of Nations".

This is not the occasion to commemorate Adam Smith and I am quite unfitted to do so. But, though it is only partly relevant to my subject tonight I propose to take the opportunity to read to you my favourite quotation from his classic work:-

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Adam Smith believed strongly in competition as the major protection of the consumer. We still believe in competition but this belief is tempered by consideration of the need to protect the consumer in a highly technological world where the consumer's needs and wants are so much more complex than two centuries ago. The producer's freedom is restricted by rules governing what he may sell and how he may sell it and the principle of caveat emptor has been much modified to protect the consumer from damage due to his own inability to discriminate. In Adam Smith's day, Government intervention in industry was mainly confined to providing standards of measurement. Today, we have a vast corpus of legislation and regulation designed to protect the consumer.

I propose this evening to examine some aspects of consumer protection as it applies to insurance. I shall describe some of the measures Government has taken or is proposing to take and to indicate some of the practical problems we have to face and some of the limitations on Government action in this area.

Not only Government action. For 1976 is also the year in which the first major EEC directive relating to insurance comes into effect. This obliges all EEC countries to impose certain minimum standards of supervision on insurance companies undertaking non-life business and, at the same time, provides for the right of a company authorised by one EEC country to establish branches in other EEC countries. Now is not the time to expatiate on EEC developments, particularly since this Directive does not really impose on us requirements which we ourselves think unnecessary. However, I would emphasise that, increasingly, in this field as in others, we will have to march in step with our European partners and, since we have an export orientated industry, it is in our interest to foster greater opportunities to compete in Europe. This carries the need for agreement on certain minimum standards of supervision.

My main purpose is to share with you some of the problems the Department encounters in carrying out its functions. As a preliminary it may be worthwhile spending a little time in recalling some of the facets of the public interest in relation to insurance. It would be as well to start by defining the terms. The text books give various definitions. My favourite is the one in my old Encyclopaedia Britannica:

"A term meaning generally making oneself safe against something, but specially used in connection with making financial provision against certain risks in the business of life."

Perhaps the first point to make is that it is in the public interest that risks should be insured. Adam Smith put it like this:

"The trade of insurance gives great security to the fortunes of private people, and, by dividing among a great many that loss which would ruin an individual, makes it fall light and easy upon the whole society."

It follows from this that insurance should be readily available. It is sometimes argued that because insurance policies are complex contracts they should be sold only by experts. Because certain drugs are dangerous they may be sold only on prescription. Obviously there is a lot in this argument, but if we restrict the number of selling points this could mean that some people who should take out insurance do not do so. A man buying a car from a dealer wants to drive it away. If he cannot get insurance car sales may be reduced; more seriously he may drive off without insurance. Personal saving is - or used to be - a virtue; industrial insurance may not be a very good buy according to "Which?" but the industrial insurance salesman is still responsible for the great majority of the life policies currently in force.

Insurance should be available so far as possible to meet the wide variety of risks that exist. (Of course, certain risks are largely uninsurable. Worldwide inflation perhaps is the most topical example; no insurance company has yet found a way, except in the very short term, to provide monetary recompense for a fall in the value of money itself). It is therefore in the public interest that underwriters should be able, and indeed encouraged, to find ways of insuring against the innumerable variety of risks that do or may exist. While for most risks there is an off-the-shelf policy, there must be freedom to design a special policy to meet special circumstances. One of the great strengths of the London insurance market is that, unlike many overseas regimes, it is free from Government control over policy conditions.

Insurance should be cheap. This can best be achieved by competition and here again the British regime, where premiums are not in general controlled, provides a better deal. We should avoid unnecessary controls in order to keep costs down. An article in "The Times" last year compared the cost of motor insurance in the UK and in five other European countries. The lowest was the Netherlands where the premium was  $2\frac{1}{2}$  times as high as here; the highest were in France and West Germany where the premium was well over three times the British rate. Of course these were sample figures relating to a particular period and they may reflect lower levels of traffic accidents and possibly of repair costs. But I do not believe a more detailed comparison would have shown a very different picture.

There is another aspect to cheapness. Particularly in life assurance, where the return provided by the insurance company depends on its skill in investing the premium. Freedom of investment encourages this skill. Restriction of investment will tend to reduce it. Comparison between different countries is not very easy bearing in mind the effect of other factors, notably variation in interest rates and the incidence of taxation. But it is probably fair to say that the British industry has generally over the years provided a better return than the majority of its competitors.

But the public interest does not stop there. It is in the public interest that insurers should be able to fulfill their part of the contract: indeed this is an essential requirement bearing in mind that the purchaser of insurance pays for the goods before, in some cases many years before, his claim on the insurance company falls due to be paid. It is this aspect of the public interest that has traditionally commanded the greatest public attention. It is the basis of the control mechanism which every Government has found it necessary to apply with greater or less intensity. It is one of the earliest types of consumer protection. And, public control measures being what they are, their effect can well be to reduce the availability of insurance, to limit the variety of risks against which insurance can be obtained, and to put up the cost. We have a conflict of interest between potential policyholders on the one hand and existing policyholders on the other, and between the policyholder's need for cheap and simple cover on the one hand and his need for effective

cover on the other. But it is clear from recent history that the customer does not want insurance with a risk that his company may go broke. He is not philosophical about his loss if it does.

And there is yet another aspect. Insurance is a complex product difficult for the ordinary man to understand. Is the particular contract on offer the most appropriate to his needs? If I buy a shirt and it does not fit I can usually take it back to the shop and get my money back. If I buy an insurance policy and it does not recompense me for the damage I suffer, it is too late to do anything about it. So I have to rely, perhaps to a greater extent than in most other purchases, on the expertise and integrity of the salesman. And even if integrity is the norm in our society, expertise is always in short supply. And if insurance is on offer at thousands of selling points, most of them will undoubtedly lack the expertise. So there is a second conflict.

A variation of this conflict is a subject of current discussion. This relates to life assurance and the rates of commission insurers offer to brokers and other intermediaries. Are the public on occasion being encouraged to buy life policies of a kind which is more expensive than they need or can afford. A family protection policy may be a much more sensible purchase for the younger man than an endowment policy. Both may be good buys, but one is better than the other. Here again expertise and integrity are essential qualities for the company's salesman and for the broker.

There is no correct answer to these conflicts. The problem is as so often one of setting the right balance. In the case of insurance the task of setting this balance lies with the Government and in particular with my Department. I want to speak to you tonight about the ways in which my Department approaches these conflicts and seeks to find balanced solutions to them.

In a sense these problems reflect the two aims of the Department of Trade in relation to the insurance industry: The protection of the policyholder and the maintenance of a climate in which the industry will continue to flourish and make its contribution to the national economy and balance of payments.

Our main efforts are directed towards securing the continued solvency of the insurance companies. Our powers are great but not unlimited. Let me give an example.

A recent article in the "Financial Times" said that:

"it should now be impossible for anyone with a questionable background or doubtful qualifications to be in control of an insurance company."

I do not think I would put it in quite that way. There were long debates on this subject when the 1973 Insurance Companies Bill was being debated in Parliament. The Lord Chancellor, Lord Hailsham said that it was "precisely the kind of problem as to the reliability of individuals in which, if I may say so, I think perhaps harshly, the 'Caesar's wife' criterion is the one applied by an experienced businessman and not a nice appreciation of the legal rules of evidence and judgments made on it." (Hansard, House of Lords, 22 March 1973 col 904).

Nevertheless, the Secretary of State cannot act in quite the same way as an experienced businessman may do. For, although he can control entry into the industry, he must act fairly in coming to an adverse conclusion. It is certainly not sufficient for the Department to suspect, or for a respected member of the industry to tell us that he suspects, that a person or company proposing to acquire an insurance company is unfit. It is necessary to look behind the suspicion to the facts on which it is founded and consider whether these facts disclose evidence of unfitness or impropriety. That is not always easy. The evidence may not be available to us and, even if it is, it may be very difficult to assess. The person or company concerned must be given an opportunity to make representations. And weighing up the arguments can be an extremely onerous responsibility, bearing in mind that a man's career and livelihood may be at stake.

We can all think of companies which got into trouble as a result of the failure of owners, directors or managers to observe the high standards of skill, performance and integrity which we expect and which are, it is fair to say, normal in the British insurance industry. But it would have been a very different matter to make a case at the time those men first got involved with the companies which subsequently suffered from their inadequacies.

When it comes to supervision of the solvency of an existing company there is another problem. Given that we are living in a climate where consumer protection in insurance is accorded very high priority, should we intensify regulations on the industry, thereby putting up the costs to all? Or should we refrain from doing so and suffer a higher risk of the occasional failure?

Insurance supervision can be approached in one of two ways. It may take the form of telling the insurer what he may or must do; the terms on which he may underwrite business, the premiums he may charge, the pattern in which he may invest his funds, etc. That is the approach which is widely used on the Continent of Europe and in North America. It is claimed to provide a high standard of protection for policyholders; but it has not eliminated failures and it does discourage an insurer's initiative and reduces scope for innovation.

The other course is that which we have preferred - in telling the insurer broadly what he may not do, thereby leaving him free to conduct his business within stated prohibitions and limits and to respond to opportunities for initiative and innovation.

We are currently engaged in drawing up Regulations under the 1974 Insurance Companies Act designed to ensure that companies remain solvent and that potential dangers are recognised at an early stage. We have already made progress in this direction but a lot remains to be done. I do not wish to bother you with details; the work is complex and the problems involved are very difficult if we are to establish the maximum freedom which companies can be allowed consistent with security. It would be nice if we could distinguish, as it were, between the sheep and the goats, trusting the sheep to safely graze unsupervised but tethering the goats with a rope whose length was inversely related to their smell. The problem is to recognise the sheep and to be sure that he remains one. If we cannot do this, we must assume that all are goats. To date neither we nor any other supervisor of insurance has found a reliable test. The Insurance Companies Act and the Regulations made under it must therefore apply to all the 800 companies we supervise. Their freedom is restricted and the burden of the regulations imposed is substantial. Some companies, some very respectable companies, will have to change

their traditional pattern of operation in order to comply with them, although we are fortunately able to allow time for the necessary changes to take effect.

One major change will be published within the next week or so to come into operation later this year. It is designed to prevent an insurance company from investing too large a part of its funds in any one asset, either directly or through the medium of other companies with which it is related. Any single investment greater than the amount allowed will not count in total towards calculation of its solvency. It is certain that no good insurance company would wish to do so and the rules have been accepted by the industry. But it is not as simple as that: in practice, in order to clean up some goats, some part of the anatomy of odourless sheep will inevitably feel the scrubbing brush.

This leads me to mention another dilemma. The Department has been criticised for the slow rate at which the Regulations are being made. The reasons for the slow rate of progress are fairly clear. The complexity of the problems and the need to consult widely. The lack of adequate expertise in the Department, and, it may be fair to say, in the industry; and much of that expertise has also been heavily engaged in dealing with the multitude of individual problems that have arisen particularly in the crisis situation of the last two years. The difficulties in the legal drafting: it is one thing to say "Make a regulation to require companies to spread their investments widely so that the failure of one or two cannot cause serious damage"; it is quite another to spell that out in legal form in such a way that it covers all the varieties of company organisation and inter-relationships. The new Regulations covering this matter are more than a page or two long.

But let us suppose that those difficulties had not existed and that Asset Valuation Regulations had been made in 1973. The effect would have been to require companies to adopt higher standards in order to meet the insurance company solvency requirements. Excellent, provided those standards could have been attained. But could they? Raising the pass mark is an attractive proposition. But not if the main effect is to put up the failure rate. There was genuine concern that rapid implementation could force companies, which had previously been regarded as financially sound, into a position where, under the Regulations, they would,



technically, have appeared to be insolvent. This problem is inherent in every effort to raise standards. It applied particularly in 1974 when insurance companies saw the value of their assets fall more severely than at any time since 1945.

In any event, regulations are not enough - not even if they could be rapidly enforced - and I shall mention some other problems in this connection in a moment. Insurance is the business of taking risks and, as Sir Geoffrey Howe said when he introduced the 1973 legislation:

"it is inherent in insurance business that a view has to be taken of events in the future which must occasionally turn out to be wrong to a degree which defeats what appeared at the time to be prudent judgment".

The approach of the Department is inevitably very much conditioned by experience. I sometimes say that the loudest noise is the clashing of stable doors. We too need to look ahead and to try to predict the areas in which next year's problems will arise. We are therefore setting up an advisory panel containing knowledgeable people from all the sections of the insurance industry and its customers to advise the Secretary of State on the exercise of his powers under the 1974 Act and in particular to help us to spot the potential danger areas in good time so that we can take action to prevent a crisis situation developing.

That is not all; partly because of the 1974 troubles, Ministers decided that it was necessary to provide a safety net for personal policyholders. Legislation was introduced which resulted in setting up the Policyholders Protection Board. From now on, when, despite our efforts and those of the industry, a company fails and goes into liquidation the Board will look after its private policyholders, and ensure that they get at least 90% of their claims reasonably quickly. The private individuals who have invested their savings in the company's policies or have insured their personal possessions with it will therefore be substantially protected from loss.

The Board also have the discretion to intervene earlier - between the presentation of the petition for winding up and the Court Order - to make interim payments to policyholders who may otherwise suffer hardship through non payment of their claims. At that stage, too, the Board have a limited

power to avert the need for winding up the business by providing finance, either to the failed company itself in a reconstituted form or to another insurer to enable him to take the business over.

There has been much discussion about the prospective burden of the levies which can be charged by the Policyholders' Protection Board. I believe this burden has been greatly exaggerated. It cannot exceed 1% of premium income in any year, and in most years would be less than this. In some years there may well not need to be a levy at all. But, even apart from this, some of those who have objected have not given enough consideration to the alternative which is a further tightening up of supervision which would substantially reduce the freedom of the industry. This in turn would result in higher costs and higher premiums for everyone all the time - not just when a company fails by more than 10% of its liabilities.

I now turn to some of the practical problems of supervision. I have already mentioned that our general approach is to leave the insurer free to conduct his business as he wishes subject to certain stated prohibitions and limits. The result of this is that as supervisors we are inevitably to some extent behind the game. We obtain much information about what has happened, but normally not until after it has happened. Too often our task is to try to pick up the pieces.

Everyone who has to present his position to the outside world is entitled to present an optimistic picture of his prospects. Insurance companies are no exception. The Department therefore must have a bias in the other direction. We must tend to the pessimistic - and in the last 3 years our pessimism has in the event sometimes turned out to be rather optimistic. If a company takes the initiative of coming to us with its troubles, those troubles are likely to be serious indeed. So we are on the look-out for straws in the wind which may hopefully be only straws, but which are often indications of a serious malaise.

For example, a rapid increase in premium income could be an indication that a company is using its capital more extensively to build up a sound portfolio. But it could also be a sign of rash underwriting; of new business being attracted at uneconomic rates; or of efforts to

overcome a serious liquidity problem due to an unwise investment policy; or even of efforts to stave off insolvency by increasing cash flow.

A motor insurer who had not increased his rates in the last year would certainly merit further investigation. How has he alone been able to keep his costs down?

Innovation always involves additional risk, and the more attractive the new policy the greater the risk if something goes wrong. New companies are often established by men with lots of imagination but limited funds who want to "go places". They have new ideas which they wish to develop. This can lead to rapid growth and strains upon the company and the situation is made worse if their determination to grow leads them into high pressure salesmanship and offering too generous conditions. A large and old-established composite can afford to experiment. But a new company with limited resources is more vulnerable - and yet it is companies of just this type which have played an important part in developing valuable new ideas.

A more difficult case to spot is the one where a company makes inadequate provision to meet future claims (I am not referring here to life assurance where actuarial techniques are available). In this inflationary world that can happen to the best run company. But it is still the case that company management is often inadequate in this area. Since 1970, companies have been required to provide analyses of claims - their frequency and their size. These analyses should be an essential management tool; but too often they are still regarded as a chore imposed by the Department. I believe that auditors could be of greater assistance in this area. We sometimes get the impression that auditors accept too readily the company's own assessments of its liabilities without proper consideration of the propriety of the basis on which they have been calculated.

As I see it, one of the tasks of my Department is to stimulate a greater degree of self-discipline within the insurance companies themselves and this applies particularly to the assessment of general business liabilities. On occasion, no doubt, our actions have made life more difficult but I believe that the leaders of the industry consider that our efforts in this direction have been well founded.

When we see something unusual, we investigate. We have powers to do this when we consider it desirable in the interests of protecting policyholders; but normally we proceed informally and companies are usually ready to provide the information we are seeking.

But of course that is not always enough. A company's margin of free assets may be falling - due to underwriting losses or a fall in the value of its investments. In such cases there is certain action we can take. But that action is rather limited.

There are three main things we can do. We can require the company to put its investments, or a proportion of them, in the hands of an approved trustee; we can require a company to get rid of investments of a specified description; and we can require a company to limit its premium income.

The requirement to put assets in trust was originally designed to prevent fraud. We should not neglect that purpose. It is essentially a precautionary requirement and is widely imposed on newly authorised companies and companies whose ownership has changed. It enables the Department to keep a general watch on these assets but their adequacy depends on whether the liabilities of the company have been correctly assessed and whether the individual assets are good purchases or bad. Neither we nor the trustee are responsible or indeed qualified to consider that aspect.

The requirement to get rid of particular investments is a useful one when a company may be in difficulties; but it presents problems in practice. If a company possessed a large block of shares, these may be difficult to dispose of without seriously depressing the market. A more common problem in recent months has arisen where too large a part of a company's assets have been invested in a single property. We might like them to get rid of it but to force them to do so in the current state of the property market could lead to a quick sale which would not be in the interests of the policyholders; it could mean certain crisis rather than possible future difficulty.

A premium income limitation can be used to prevent a company expanding its business too rapidly but again it is a precautionary measure. It may stop a company's position deteriorating further - although it can create cash flow problems - but it does not promote recovery.

If matters reach the stage where solvency is seriously in doubt, we can put a complete restriction on new business. But, since this is in effect a death warrant, we are required to give the company a month's notice and to consider any representations the company may make. A notice of intended restriction sometimes deals with the solvency problem by making management concentrate their minds on the difficulty and finding a way of resolving it. When this fails, however, the Department faces a difficult dilemma. A decision to impose a restriction prevents new policyholders getting involved in the company but, if it were to lead to a run of surrenders, it could damage the interests of existing policyholders. When in doubt, we give priority to the need to keep new policyholders from becoming involved. Again, there is a problem of timing. The owners of the company may be trying to sell it and this could solve the problem if the new owner were prepared to put in the necessary funds. But a restriction on new business, which has to be published, could prevent a sale. We have to judge whether the prospects of finding a buyer are sufficiently good to justify allowing more time and therefore allowing more policyholders to become involved.

This leads me to refer to the question of publicity about our actions. Here we have yet another dilemma. On the one hand, the philosophy of our supervisory regime, which used to be described as "freedom with publicity" implies that the prospective policyholder should be given sufficient information to form his own judgment; and it is logical to regard the existence of supervisory requirements by the Department as very relevant information for this purpose. On the other hand, there is the view that adverse publicity about a company - or publicity which is believed to indicate that the company may be in difficulty - is likely to make the company's position less secure.

We are required by statute to make certain information available to the public in prescribed ways: the annual returns, a trusteeship requirement (though that is for a rather special reason not connected with insurance supervision) and a restriction on new business. On the other hand, we are explicitly debarred under S.111 of the Companies Act, 1967, from disclosing information obtained in certain specified ways. If we wanted to

publish other information we should have to consider carefully in what circumstances to do so. The company itself would have to be consulted and given an opportunity to make representations. This would involve delay and, more seriously, the effect might well be to distract the management from dealing with other, more important matters. The Department might be inhibited from taking action in case its publication itself led to a crisis of confidence and subsequent collapse.

Moreover, effective supervision depends on an atmosphere of mutual confidence between individual companies and the Department. That confidence would be seriously undermined if the existing policy of confidentiality were to be changed.

In practice, when an insurance company gets into difficulty, the only realistic remedy may be an injection of new capital. We do all we can to persuade the company to find new capital in order to resolve its difficulties and in order to avoid liquidation. But sometimes this is not practicable.

During the last year or two the Department has been much concerned to ensure that companies faced with rising claims and falling asset values maintain an adequate capital base. Discussion with the Department led a considerable number of companies to ask their shareholders to provide new capital to rectify the situation which had emerged. In many cases the shareholders did so. There were 25 cases in 1974 and a smaller number last year when the industry benefitted from the recovery in security prices. These cases have not received the same publicity as the handful of failures and, in general, the Department's role has not been appreciated. Good news does not usually attract headlines and the story is made less attractive since we cannot mention names. Nor can we take credit for all the action which was taken in this field. Some companies - including some of the large composites - prudently took action themselves without any prodding from us.

There were some companies where the shareholders were unable to put up the necessary capital and had to sell the company to new owners who were able and prepared to do so. I should record that in certain of these cases the sales amounted to rescue operations in which leading insurance and other companies took part. They are entitled to claim considerable credit for this public

spirited action to protect policyholders on behalf of the general standing of the British insurance industry.

Shortage of capital was a problem for insurance companies 200 years ago and Adam Smith recognised it. "In order to give security", he said, "it is necessary for the insurer to have a very large capital. Before the establishment of the two joint stock companies for insurance in London - those were the London Assurance and the Royal Exchange Assurance - a list, it is said, was laid before the Attorney General of 150 private insurers who had failed in the course of a few years."

I do not propose to say much about selling methods in relation to insurance. It is only since 1973 that our insurance supervisory legislation has been concerned with this aspect. And we have not yet got fully to grips with the problems involved. But it is already clear that there are substantial problems to be solved.

It is now an offence to make misleading statements in order to sell insurance and this is leading to better standards in insurance advertising. Advertising in this context is widely defined and includes, for example, brochures circulated by companies and intermediaries. We propose to back this up by Regulations giving positive guidance and our ideas have been put to the industry and other representative bodies. These are complicated matters and as usual we have a dilemma: we are having to weigh up what is ideally desirable against practicalities and costs. There is another problem. If advertisers are required to give specific information, this implies that other information is less significant. If the specified information is restricted, important matters are omitted; if it is widely drawn, the result may be indigestible and ineffective.

We are also concerned with the nature and qualifications of intermediaries. In the first place, we are adopting our traditional approach of requiring disclosure of relevant information - in this case by requiring disclosure by intermediaries of connections by way of shareholdings, personnel or sole agencies with insurers. Regulations in this area will be made shortly.

A more difficult area is that of the insurance broker who claims to offer independent advice to the prospective policyholder. At the request of my Secretary of State, the four leading associations of insurance brokers have put forward outline proposals for the supervision of insurance broking and these are currently being studied. A problem here is whether the supervision should be carried out by a brokers' professional institute or by way of an official licensing scheme on the lines of the scheme for consumer credits grantors provided in the Consumer Credit Act. The decision on this will take time; there will have to be wide consultation with other interested parties, including insurers, other intermediaries and consumers' organisations. But, irrespective of this, we certainly welcome the decision by the four insurance brokers' associations to set up the Insurance Brokers' Council as a move towards a single broking organisation, to co-ordinate and represent the views of all and to maintain standards of professional skill.

We are not trying to reserve business to brokers. Many insurance companies deal direct with the public or through accredited agents and a responsibility lies with the companies to satisfy themselves that these employees and agents are suitably qualified for the role they play. Perhaps we should be thinking in terms of some minimum qualifications for intermediaries who are not brokers, even if this were to result in some reduction in the number of points of sale. You may like to comment on this.

I have spoken this evening of some of the problems which face the Department in carrying out its role of protecting policyholders while at the same time allowing the industry, both the providers of insurance and the sellers of insurance, as much freedom as possible in carrying out their task. The role is a difficult one. But I am not here to seek your sympathy. My objective has been rather to describe what we are trying to do and some of the limitations imposed by the framework in which we work; a framework which is created on the one side by the legal limitations set by the Insurance Companies Act and on the other by the need to preserve as high a degree of freedom as possible for insurers, in order to encourage the competition and innovation which it is important to maintain if the industry as a whole is to continue to provide its high standard of service at home and to compete successfully overseas.



Adam Smith has not, so far as I am aware, given us advice on how a civil servant should approach his work or deal with the problems that cross his desk. This is disappointing. For in his latter days, after he gave up his professorship and shortly after the publication of the Wealth of Nations, he became a civil servant himself. From 1777 to 1790 Smith held the office of a Commissioner of Customs for Scotland. I do not know whether he made any significant contribution to the solution of the problems and dilemmas facing public servants of his day. His own description of his job is perhaps worth recalling, though, with some feeling of nostalgia.

"My present office, though it requires a good deal of attendance, is both easy and honourable, and for my way of living sufficiently beneficial. The only think I regret in it is the interruption of my literary pursuits, which the duties of my office necessarily occasion. Several works, which I had projected are likely to go on much more slowly than they otherwise would have done."

I doubt if there are many civil servants to-day who could subscribe to much of that.