

History of the PVK

Introduction 2

Earliest forms of supervision 2

1923 – insurers come under supervision 3

1952 – supervision of pensions 3

2001 – VK becomes PVK 4

Changes in supervision and merger with the Nederlandsche Bank 4

Introduction

The 1923 Act on the Life Insurance Business simply stated, ‘There shall be an Insurance Chamber’. Indeed, that same year saw the creation of the Verzekeringskamer (VK), which many years later was to change its name to Pensioen- en Verzekeringskamer and ultimately, in 2004, merged with the Nederlandsche Bank.

However, to think that the creation of the Verzekeringskamer marked the beginning of insurance supervision would be a mistake: it goes back hundreds of years. The first insurance supervisor deserving of that name was a private person, the 16th century insurance broker J.B. Ferrufini. In later times, various (government) bodies were asked to exercise insurance supervision, until the creation of the Verzekeringskamer (VK) in 1923 – which supervises only life insurers. Later on, more and more financial sectors were placed under the VK’s supervision, varying from non-life and funeral insurance companies to pension funds. Gradually, the scope of supervision broadened, from institutions’ financial soundness to other important matters such as internal control and directors’ trustworthiness and expertise. What remained unchanged, however, was the ultimate goal of supervision: the protection of consumer interests.

Earliest forms of supervision

No exact date of origin can be given for the first form of insurance or of old-age pension. We do know, however, that insurance accompanied merchant shipping from a very early age. There were huge risks involved in merchant navigation, and as early as 1310 traders are believed to have been able to insure their merchandise against shipwreck and piracy with an 'insurance chamber' at Bruges. This chamber is assumed to have been a type of government insurer that collected premiums and paid out compensation in case of loss.

When insurance came in, fraud soon followed after. Deceit assumed various guises, such as overinsurance of cargo or collusion between merchants and pirates, while some went so far as to buy back captured ships from pirates. In 1556, the Antwerp insurance broker Jehan Baptiste Ferrufini submitted a long list of all that was amiss to the monarch of the Low Countries, King Philip II of Spain, applying for the position of 'supreme supervisor of marine insurance'. Ferrufini was given the – newly created – post and lost no time in drafting various rules in order to combat fraud. One such rule was that a ship's cargo could not be insured for more than 90% of its value.

Later, supervisory duties were assigned to city authorities, as in Amsterdam (where a Chamber of Assurance was formed in 1598), Rotterdam and Flushing. They drew up regulations governing policy terms and mediated in disputes over insurance.

Annuities and tontines

Another early form of insurance is the annuity. The earliest known annuity letter was issued in 1380 by the town of Aardenburg. Towns raised funds by selling annuities to wealthy merchants. Eventually, however, the increasing interest burden had a catastrophic effect on the municipal coffers, and the towns could no longer meet their obligations. Ultimately, in 1514, the States General, in a drastic measure, decreed that towns would henceforth need official approval to issue annuities. Also, towns' annuity accounts were subjected to yearly audits by the Financial Council at The Hague. Thus a form of governmental supervision was created.

In the 18th and 19th centuries, tontine schemes, as they were called, gained popularity. Many towns conferred such life annuities between 1670 and 1869. Participants deposited a sum of money. The interest on these deposits was redistributed to living participants, until the last one died. Such savings schemes acquired a bad name because similar constructs were set up by private parties who were not always driven by pure motives. It was the French-sponsored King of the Netherlands, Louis Napoleon, who imposed restrictions on the tontine schemes, placing them under supervision from 1809.

1923 – insurers come under supervision

During the nineteenth century, the need for a more general supervisory regime to protect the interests of policyholders became increasingly felt. From 1830 therefore, new insurance companies could be established only with royal assent, and in 1880, the Supreme Court ruled that supervision should be enshrined in legislation. However, the squabbling that ensued about the form such supervision was to take caused the adoption of an Act on the life insurance business to be delayed until 1923. From that year, the Act required insurers to hold a minimum guarantee capital and to disclose their financial figures to the Verzekeringskamer (VK), established under the same Act as an independent public body (zelfstandig bestuursorgaan).

Non-life and funeral in-kind insurance

The bankruptcy of a few non-life insurers led to the introduction in 1961 of an Act on the Non-Life Insurance Business, which made the sector subject to supervision by the *VK*. Supervision of the funeral in-kind insurance business was added to the *VK*'s duties in 1996.

Non-life insurance supervision was broadly based on life insurance supervision. It was not until 1987 that an Insurance Business Supervision Act (*Wet toezicht verzekeringsbedrijf*) was adopted, unifying earlier legislation on both life and non-life insurance. After it was amended in 1993, the Act has been referred to as the '*Wtv 1993*'.

1952 – supervision of pensions

Old-age pensions go back to the middle ages. Even then, public servants and soldiers were given old-age annuities by their employers. Public authorities also funded old-age provisions for parish clergymen. The first pension scheme benefiting all public servants dates back to 1836, when the General Public Service Pension Fund (*Algemeen Burgerlijk Pensioenfonds*) was established to dispense disability pensions. A general statutory old-age pension scheme for public servants was created in 1846; the earliest company pension fund in the Netherlands probably was that of a railway company, established in 1845.

For quite a while, pension schemes went without official supervision, since pension schemes used to be looked upon as a favour rather than a right. Moreover, public authorities at the time did not believe in self-surveillance. The first time pension funds were required to observe official rules was when a Royal Decree was issued in 1908. One requirement was that a pension fund's board should include representatives of participant workers; another, that the fund's assets must be separated from the employer's capital.

Not until a company was found unable to meet its pension obligations in 1936 did the need of comprehensive legislation make itself felt. Even so, it was not until well after the Second World War, in 1952, that the Pension and Savings Fund Act was adopted. The supervision of pension and savings funds was to be exercised by the *Verzekeringkamer*. From that date on, pensions ceased to be a favour and became an acquired right.

2001 – VK becomes PVK

The vk had been deliberately cast as an ‘independent public body’ by the legislator, rather than a government department. Such a department would have been less closely in touch with the insurance sector, it was thought, and would lack a certain familiarity with it. In practice, this would prevent the supervisor from acquiring the necessary level of authority and trust. Moreover, the legislator wished to avoid the interference of political interests with supervision. Supervision was to be entirely geared towards the protection of consumers. Apart from its monitoring duties, the vk was expressly given an advisory position vis-à-vis both institutions and Government Ministries.

In 1969 the vk, long-established in Amsterdam, was moved to Apeldoorn in the context of the Government’s decentralisation policy.

From its establishment, the vk had been affiliated to a Government Ministry, most lately that of Finance. In 1992, however, the vk was re-established as a non-profit organisation with its own budget, which better enabled it to keep abreast of developments in the pensions and insurance sectors.

In 2001, the vk was given a new name reflecting its expanded duties: the Pension and Insurance Supervisory Authority of the Netherlands (Pensioen- & Verzekeringskamer / PVK).

Changes in supervision and merger with the Nederlandsche Bank

In the past, financial supervision in the Netherlands used to be sector-oriented: each of the different supervisors was responsible for its own category of institutions. While the PVK supervised pension funds and insurers, the Nederlandsche Bank kept an eye on, mainly, banks.

However, this division of duties corresponded less and less well with the developing financial sector as more and more financial institutions merged into large concerns incorporating both banking and insurance units. At the same time, there are strong similarities between the types of risks these units are exposed to and, hence, in the type of supervision exercised by their supervisors.

Given these developments, the legislator implemented far-reaching changes in the set-up of financial supervision. Sector-oriented supervision was replaced by functional supervision, distinguishing 'prudential' supervision from 'market conduct' supervision. While prudential supervision concerns itself mainly with the financial and administrative soundness of institutions and of the sector as a whole, market conduct supervision monitors the way financial institutions behave themselves. 'Market conduct' includes not only institutions' behaviour in financial markets and the stock exchange, but also the way they communicate with their customers. The PVK and DNB were both made responsible for prudential supervision of financial institutions, while the AFM monitored market conduct.

From here, it was only a small step towards the next development, the merger between PVK and DNB. After having collaborated ever more closely for some years, both supervisors were formally joined together on 30 October 2004. The new organisation thus created continued under the name of De Nederlandsche Bank.

