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So transparent that it can't be seen

The zeitgeist of modern business ethics might be summed up in the single word 'transparency'. Synonymous with all that is good and noble (in the same way that 'strategic' once was in another context), anything that is not considered 'transparent' must, it follows, be bad. Hardly a day goes by without a business regulator or financial journalist slamming some conduct or practice for lack of this worthy characteristic. We must all be careful to ensure transparency in all that we do if we are to avoid the worst type of vilification that the commentators of our time can afford.

So is transparency really the answer to all business problems or is it just another good thing in moderation which is dangerous in excess?

The phenomenon of 'information overload' has been known for some time. We believe that it first came to light in the field of health and safety. Investigators of, for example, air accidents, asked themselves why experienced pilots had apparently ignored warnings that should have been clear from their instruments. Industrial psychologists came up with the 'white mind' concept, which argued that in certain circumstances the brain was simply being required to process too much information in too short a timeframe to be able to cope.

They found other things too, for example that time was not everything. Even with plenty of time to process information the mind started to develop a sort of information fatigue. Perhaps most dangerous of all is the mind's ability to see not what is actually in front of the eyes but what familiarity suggests should be there.

Your humble correspondent spent many years as a young man drafting policy wordings (you had probably guessed). The acknowledged starting point was to get hold of a selection of competitors' wordings and begin by choosing what looked best, with a view both to contract certainty and competitive advantage. Of course familiarity sets in at an early stage, as there is much similarity between wordings and it is easy to glance at a clause and know its intent without actually reading it. Time can be saved by cutting and pasting – but the experienced drafter of wordings soon learns to avoid this hazardous practice.

This is because of the important difference between the expressions 'similar' and 'the same' There is much similarity between a car and a tractor – until it comes to ploughing a field, that is, and so it is with policy wordings. Writing the whole thing out might be tedious, but it will help to avoid problems like an exclusion clause failing to have effect because of a definition that appeared in a competitor's policy but was (deliberately) not used in one's own.

Maybe old policy drafters are better at reading through lengthy documents than those who never aspired to reach such heights, but even so they have their limits. If one wants to see the current obsession with transparency taken to absurd limits, have a look at the provisions mandated in Israel by the Barneh Committee. This requires businesses to disclose just about everything that anyone can think of and explain it in terms that should be understandable to a child. The rules are not aimed particularly at insurers, although they do, of course, have to comply with them. This means that the disclosure document for one insurance company runs to some 85 pages and explains, inter alia, what a third party motor policy is, what a household policy is, what reinsurance is and the uncertainties inherent in fixing the annual profit and loss figure.

Of course, any insurance professional, including any analyst, will know all this and will want to focus on the key financial information that was there anyway, including returns made to the regulator. Any potential investor is more likely to rely on the views of advisers who will, in turn, rely on the work of analysts. So who will actually gain from learning what a third party policy is? And although the casual reader may come away with a better understanding of the risks inherent in the business, it is out of these risks that insurers make money – eliminate them and there is no business left.

The downside of the transparency preoccupation is not, in our view, limited to the costs associated with the production and distribution of all this information (although they must be considerable) but is something much more serious. Yes, we are back to the problem of information overload. The very real danger that, in wading through a load of tedious material explaining that third party losses may be divided between property damage and bodily injury (bet you never knew that!), it is much more likely that some really important item of information will be overlooked, so that the cheerful observation that: 'In order to expand further our successful liability account we have just signed a binding authority, to write business and handle claims, over to the prestigious firm of Growfast Underwriting Agencies, operating in a territory of which we have absolutely no experience and for which they will be remunerated by receiving a substantial commission while having no interest whatsoever in the profitability of the business', gets lost among all the tedium of divining the impact of the replacement keys extension of a household policy.

Now the problem of the airline pilots becomes very clear. A signal that should have sent any experienced observer's blood running cold has been overlooked amongst what is, essentially, just a load of noise. Before we know it we will have stalled at too low an altitude to effect a recovery.

Very occasionally some totally unexpected and unforeseeable problem will come up and cause real difficulties, but such things are extremely rare. The things that usually go wrong in our business are boringly familiar: poor risk selection; underpricing; undereserving; giving away underwriting authority; mismatching assets and liabilities; letting expenses get out of control; chasing growth for its own sake. So if we see a company growing rapidly, with much of its business sourced via managing general agents in remote territories and posting results that outperform the market, it should be a surprise to no one if this organisation hits the buffers in short order.

Our point is this: if people cannot arrive at a reasonable prognosis out of information that is already to hand, how are they going to be helped if they are swamped with a great deal more? A regulatory attitude that takes the view that enforced disclosure of every aspect of everything that can be thought of is going to help anyone is, we submit, badly mistaken. The key to good governance and regulation is to focus on the key issues and that is only going to be hindered, not helped, by the current obsession with transparency.

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