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Insurance Services - Highlights of the UNCTAD Ad Hoc Expert Meeting

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Outline: Insurance Services

Introduction

- market features & trends;

Development Benefits:

- what are they & what are the challenges in realizing them;

Regulation:

- Importance & interface between national & international levels;

Insurance Services in the WTO:

- background, state of play of current negotiations & issues arising from liberalization;

Insurance Services: Development Implications

Insurance Services:

- are both, key infrastructure & commercial services; therefore a key element in the **trade and development matrix**

Three complementary elements contribute to the establishment of an effective insurance sector:

- Clearly set out National policies ;
- Effective regulatory and institutional frameworks; &
- Well established trade priorities in terms of trade negotiations

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Insurance Services: Some Market Features

Market share, dominated by industrialized countries:

- Life insurance: 88%
- Non-Life Insurance: 90%

Overall growth rate: 2.3 %

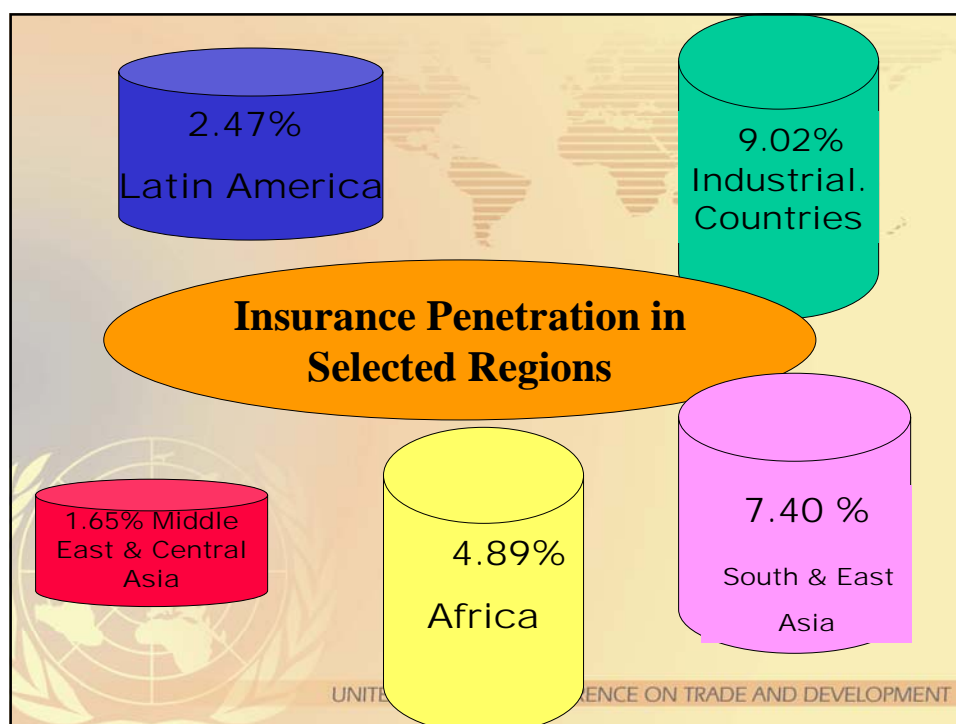
- Emerging markets: 7.5% , particularly high in Asia
- Industrialized countries: 1.7%

Among emerging markets:

- Differences in growth rate, arising from
- Differences in size, culture, insurance regulation & GDP;
- Developing countries' markets are characterized by:
 - small size, undercapitalisation and insufficient experience and know-how

World 10 largest Insurance TNCs based in industrialized countries

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Insurance Services: Global Market Trends

Three main trends:

- **Move towards privatization & liberalization;**
- **Consolidation of insurance operations;**
- **Developing countries' market potential:**
 - Insurance premiums are growing (large populations & rising living standards);
 - Attractive market for investment (India, China, Brazil).

Other trends include:

- **Technology and the Internet;**
- Break-up of the service being supplied;
- Closer ties between insurers and banks (*bancassurance*)
- Emergence of new insurance "products" & the need to identify their precise impact & decide on the most appropriate regulatory approach;
- **Offshore centers and the potential of outsourcing;**
- Shift in the focus of regulation (from "what" is being sold to "how" it is being sold).

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What are the Development Benefits of the Insurance Sector

There is a positive correlation between a country's level of development & insurance coverage;

Insurance services can contribute to economic development, including by:

- playing an infrastructural & commercial role;
- **promoting financial stability;**
- fostering the efficient allocation of a country's savings;
- mobilizing and channeling savings (life insurance);
- relieving pressure on the government budget;
- **supporting trade, commerce & entrepreneurial activity;**
- **lowering the total risk faced by the economy;**
- **improving individuals' quality of life and increasing social stability;**
- **granting export opportunities for DCs;**

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Benefits from the Presence of Foreign Insurers

The benefits of global insurers include, amongst others:

- substantial financial strength;
- transfer of technical, managerial & technological knowledge;
- global market credibility &
- risk and asset liability management.

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Development Benefits: What are some of the Challenges?

Developing country concerns regarding the liberalization of the insurance sector relate to:

- **The need to preserve the integrity & viability of the financial infrastructure;**
- The need to avoid BoP difficulties
- The need to attract sustainable FDI
- **Weak supervisory and regulatory frameworks;**
- **Potential for anti-competitive practices;**
- **Selective marketing to high-value clients;**
- **The need to promote domestic insurance suppliers & nascent industries;**
- The potential loss of employment;

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Africa: the case of the Life Insurance Sector

- **African insurance market dominated by S. Africa** – accounts for 79% of continent's premium
- **Focused on non-life insurance**
- Characterized by regional peculiarities
- However common areas of challenge include
 - Responses to AIDS epidemic
 - Lack of administrative systems and reliable statistics
 - Low life expectancies and negative perceptions about the industry
 - Lack of management and technical skills
 - Insufficient investment matching of liabilities
- **Still possible to run a successful insurance operation**

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Development Benefits: The Role of the Government as a Service Provider and Facilitator?

Importance of Public provision is key in certain sectors:

- which are **non-profitable** but benefit large populations (both **rural & low income**);

As a facilitator for insurance operations by:

- Creating public awareness;
- Setting up favorable regulatory & **enforcement** mechanisms;
- Providing incentives (subsidies for risk assessment, data collection);
- Exploring alternative insurance schemes (e.g. bank account holders receiving insurance instead of interests, channeling compulsory contributions from insurance operators towards rural insurance or micro-credit);
- Acting as a re-insurer

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Regulation: Its Importance for Capturing Development Benefits

Amongst others, regulation aims at:

- Ensuring the viability, integrity & stability of the financial system;
- Ensuring confidence in financial infrastructure (& the economy as whole);
- Avoiding possibility of failures (& effect on the economy);
- Preventing anti-competitive practices.

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Regulation: What are the Challenges Regulators are faced with?

Regulators face challenges, arising from:

- The heterogenic and increasingly complex nature of the insurance sector;
- Technological innovations and newer financial products (blurring the lines between sub-sectors);
- **The stage of developing countries' regulatory infrastructure (which often is minimal, inadequate, or still at an emerging stage).**

Even developed countries face challenges & failures

- Australia non-life insurance, Japan life insurance, Korea.

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Emerging Regulatory Frameworks - China

- **Close linkage between domestic reform & China's WTO accession**
- **Chinese Insurance Regulatory Commission - 1998**
- Uses a series of regulatory tools primarily with the objective of risk prevention:
 - Regulation focused on market entrance, clauses and premium rates, insurance investment, market behavior & Insurance insolvency, spot inspections and inner corporate control
- Specific to WTO accession, was the promulgation of the *Regulation on the Administration of foreign funded Insurance companies*, in 2004, based on the **"523" requirements**

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Insurance Services in the WTO

Financial services:

- one of the most committed sectors (after tourism);

Insurance Services

- governed by provisions of the:
 - the GATS;
 - the Annex on Financial Services;
 - the Understanding on Financial Services
 - alternative mechanism for scheduling deeper commitments;
 - Members' individual schedules of commitments.

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Insurance Services in the WTO Some Areas for Clarification

Some areas lack full clarity, such as:

- **Classification of sub-sectors:**
 - Using the Annex on Financial Services or the UN CPC;
- The Modes:
 - **Blurring of lines between Modes 1 and 2;**
- **The Scope of services covered;**
 - i.e. what amounts to “services supplied in the exercise of governmental authority”;
- **The Scope of the prudential carve-out:**
 - i.e. a narrow or broad interpretation

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WTO: State of Play in Current Negotiations

- Negotiations as part of the Doha Work Program,
 - which places the needs & interests of developing countries at its heart;
- **Post Hong Kong Ministerial use of the plurilateral approach** – 8 requests made so far including in financial services
 - Focus appears to be on advanced developing countries
 - Major demandeurs appear to be industrialized countries
- Issues for discussion in both bilateral and plurilateral approach relate to:
 - **Market access and national treatment proposals**
 - eliminating limitations relating to: establishment, types of transactions, nationality requirements, type of legal entity, on provision of insurance activities (e.g. only through incorporation under provincial statutes etc), ENTs;
 - **Liberalization of Modes 1 & 2;**
 - **Scope of prudential regulation;**
 - **Proposals relating to transparency;**

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Fostering Export Opportunities for Developing Countries Through:

- **Outsourcing and off-shoring;**
- **Provision of insurance services (Modes 3 & 4);**
- **Distribution of insurance services and insurance intermediation;**
- **Leveraging advantages from knowledge about local markets;**
- **Developing software services related to the insurance sector;**
- **Enhancing the portability of insurances (e.g. health)**

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The Way Forward

- **Reconcile economic efficiency & social considerations;**
- **Allow for appropriate pacing & sequencing of liberalization;**
- **Agree upon commercially meaningful commitments**
 - in areas of export interest for DCs;
- **Foster & benefit from South-South cooperation & trade;**
- In addition, there is a need to:
 - build supply capacity;
 - invest in training insurance professionals;
 - set up strong and efficient regulatory frameworks;
 - enhance public awareness;
 - make optimal use of technology;
 - exchange of information & views between all stakeholders.

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UNCTADs Contribution especially in relation to Africa and Least Developed Countries

- **Analyze contribution of the insurance sector in developing countries in light of the UN Millennium Development Goals to include:**
 - Assessments at national and sub-sectoral level
 - Identify arising global trade trends & opportunities
 - Regulatory challenges from global insurance trade
 - Impacts of liberalization and increasing investment
 - Measures to build domestic efficiency and overcome supply constraints
 - Impact of GATS in terms of ongoing negotiations and substantive issues
 - Potential for South-South trade
- **Provide Technical assistance and capacity building to members**

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