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# Études et Dossiers

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# The Age of International Collaboration and Rationale for Liberalization of Insurance and Loss Prevention Services

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## OUTLINE

1. To Make The Age of Globalization into The Age of Integrated Collaboration
2. Coalition of Measures to Cope with Catastrophe Risks and Role of International Insurer and Loss Prevention/Risk Management Provider
3. Realities of International Trade in Goods and Services
4. Rationale for liberalization of Insurance and Loss Prevention/Risk Management Services
5. Collaboration towards Sustainable Development and Enhancement of Human Security
  - To Make a Disaster Resilient Community, Society and Economy
  - Explore and Energize Potential of local Community
6. Conclusion

## What has globalization brought us?

- Economic growth
- Millions of people have escaped poverty
- Inter-related economies and cross-border supply/value chains

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## Looking at the other side of the coin

- Aggravated divide between urban and rural, among regions and nations
- Accumulated property value and risk-exposures in large urban areas
- Densely populated urban areas in developing and emerging economies
- Environmental damage, high CO2 emissions, global warming, climate change and natural catastrophes have increased in frequency and magnitude
- Pandemics spread more rapidly around the world<sup>4</sup>

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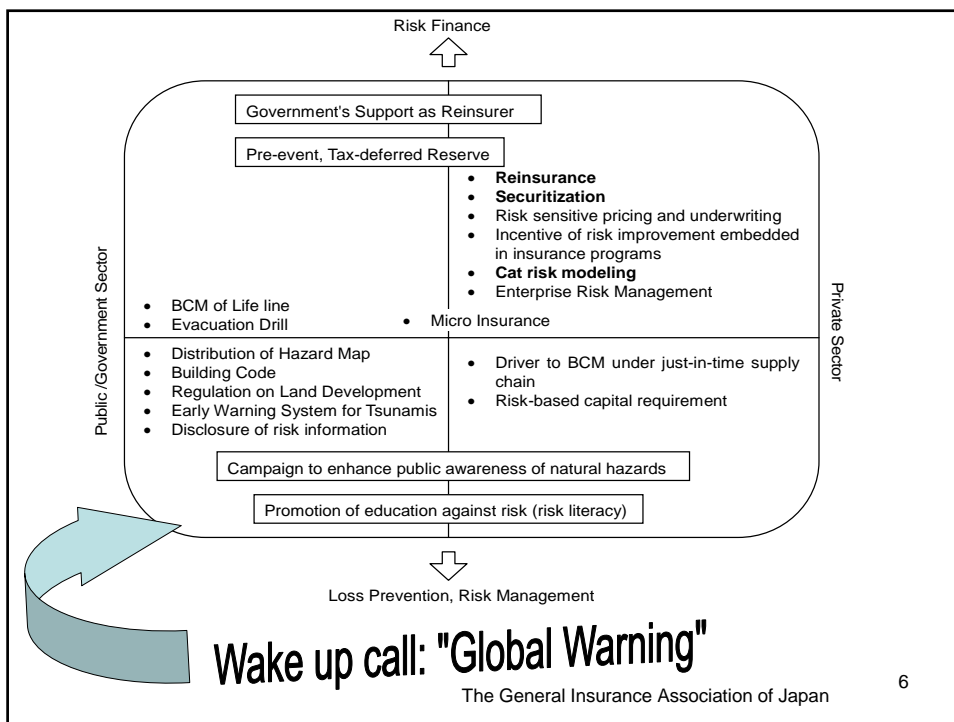
## To make The Age of Globalization into The Age of Integrated Collaboration

- ◆ We are already involved in many collaborative practices
  - Developing countries are already integral partners of inter-related economies and cross-border supply, value and innovation chains
  - Importance of risk management and BCM are shared by all the supply chain partners

However, we need renewed collaboration and coordination to cope with catastrophic risk

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### Collaboration between;

- Private sector and public sector (including reinsurance, pool and tax incentives for reserves)
- Risk finance and loss mitigation/risk management
- Government agency and other government agencies
- Insurers and community/NGOs
- Insurance market and capital market
- “Micro-insurance” and insurance/reinsurance market

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### International collaboration; global cooperation against global issues

- Exchange of best practices
- Deployment of warning systems against Tsunamis, Windstorms and Hurricanes
- What role can be played by international insurers, reinsurers and providers of RM services?

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## Situations of developing/emerging economies

- We can't generalize the situation
- Sharp contrast in economic growth between LDCs and emerging economies; between urban areas and rural; and between different regions
- Lower insurance penetration in rural areas and necessity to enhance risk awareness and risk mitigation
- Region specific risk profiles; earthquakes, floods, landslides and windstorms

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## Role of Providers of Insurance and Loss Prevention Services

- Facilitate exchange of international best practice in Insurance and loss prevention and mitigation
- Capacity to cope with catastrophe risk
- Facilitate awareness of loss prevention and loss mitigation
- Enhance Risk Based Insurance Pricing and Conditions as a basis of a sustainable risk finance scheme
- Support local initiatives such as micro insurance
- Support in building quality data resources to make risk model workable

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## Realities of International Trade in Goods and Services

- increasing pattern of international supply chain
- offshoring of manufacturing facilities
- international outsourcing of certain functions in many sectors, including insurance and financial sectors
- promotion of duty-free and quota-free market access for LDC
- increase of south-south trade in goods
- positive progress of Trade Facilitation discussion in the Doha Round

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These trends in international trade and investment are working positively for the economy and employment in developing host countries. It is clear that they must be supported by stable access to various types of services, especially insurance/risk management services. Here, we have a strong rationale for the liberalization of insurance sectors.

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Major benefits are:

- for business entities of emerging countries: to establish a position as an active and reliable member of supply chain and outsourcing services provider by strengthened risk management and insurance cover.
- to increase attractiveness as host country/region or location of FDI, offshoring and outsourcing through the availability of a wider choice of insurance services.
- to support LDC: Their production capacity must grow. Their products must proceed with greater ease to ports to be shipped abroad with seamless support from insurance and risk management services.
- to help Trade Facilitation achieve positive results, more export from developing countries

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## Strong Rationale for Liberalization of the Insurance Sector - (1)

1. Access to high quality, reliable insurance/loss prevention services realized through liberalization will strengthen the international supply chain seamlessly, from producing and exporting countries to importing countries. This will bring sustainable trading opportunities to the producers and the exporters of developing countries.
2. Liberalization will create a good opportunity to introduce up-graded regulations such as solvency margin requirements and safety-nets for consumers and to accelerate the implementation of prudential regulations already accepted as international best practice.

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## Strong Rationale for Liberalization of the Insurance Sector - (2)

3. Liberalization works as a catalyst to promote penetration of insurance protection and loss prevention awareness not only in urban areas but also in rural communities.
4. A competitive market through liberalization acts as an incentive for loss prevention and risk mitigation embedded in insurance. This would promote the growth of the host countries' economies in a more sustainable way.
5. A competitive market urges insurers to launch innovative services to help reduce the number of road traffic accident victims. Let's stop this global, creeping catastrophe!
6. Liberalization will bring impetus for the growth of stronger domestic insurers and service vendors.

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## Example: Lower penetration of insurance in Asia:

In 2004, the discrepancy between high insured losses in the industrialized nations and high numbers of victims in the emerging markets was particularly apparent: 96% of all catastrophe victims died in Asia, whereas this region accounted for only a quarter of the insured property damage.

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## Collaboration Towards Sustainable Development and Enhanced Human Security

- To make Disaster resilient Community, Society and Economy
- Explorer and Energize Potential of Communities

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## Encourage local initiative to enhance risk awareness and Discover community wisdom Examples

- Exploration for Disaster Prevention
- TSUNAMI; lesson learned from Japanese Story "Inamura No Hi"



"Exploration for Disaster Prevention"



"Inamura No Hi"

[http://www.adrc.or.jp/publications/inamura/materials/singapore\\_child.pdf](http://www.adrc.or.jp/publications/inamura/materials/singapore_child.pdf)

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## Empowerment of people and community

- One -Village One- Product (OVOP) project promoted by Japanese Government
- One Tambon One Product in Rural communities in Thailand
- Incentive package for SHGs(self-help groups) exporting their products in India

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## One-Village One-Product (OVOP) (1)

The One-Village One-Product Campaign comprises:

- Fulfilling the potential of a village and its residents
- Selecting competitive products made from local materials and using local wisdom, creativity and unique skills to deliver unique products with true value aiming at both domestic and global markets
- Including the commitment and involvement of the central and local governments

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## One-Village One-Product (OVOP) (2)

### Six Keys for the Success of OVOP

1. People's awareness of OVOP
2. Exploring the unrealized potential of each village
3. Continuous trials and enduring efforts
4. Seeking higher added-value in products
5. Developing markets and distribution channels
6. Nurturing people's talents

## Conclusion: Rationale for the liberalization of Insurance Sector, Compatible with DDA

- Insurance and loss prevention services have pivotal role in the coalition of measures towards Disaster Resilient community, society and economy.
- Seamless access to advanced insurance and loss prevention services is an integral part of economic development
- In developing economies with less efficient infrastructure (road, port/airport etc.), Insurance and loss prevention Services are critical drivers to lower the costs of logistics and handling of export to developed market.
- Encourage technical transfer through liberalization in insurance sector.

Thank You

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