Distr.
GENERAL

TD/B/C.3/99
8 October 1971

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing related to Trade
Fifth session
Geneva, 1 December 1971
Item 7(a) of the provisional agenda

INSURANCE

Review of developments in the fields of insurance in developing countries during the period 1968 - 1970

Report by the UNCTAD secretariat

CONTENTS

Note

The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the secretariat concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

GE.71-20723

INTRODUCTION

i. This review of developments in the field of insurance and reinsurance in developing countries during the period 1968-1970 has been prepared by the secretariat of UNCTAD in accordance with the instructions given by the Committee on Invisibles and Financing related to Trade at its second session[1/].

ii. In carrying out this task the secretariat has been guided by information obtained directly from the Governments of the developing countries themselves, which were good enough to reply to a note verbale addressed to them in February 1971. However, in some cases, the secretariat depended on information collected from other sources, such as insurance and financial periodicals. Owing to this fact, the secretariat would like to emphasize that the review, far from constituting an exhaustive catalogue of events that have taken place in the developing countries, reflects only the events which came to the secretariat's notice either through the Governments of the developing countries or through other channels.

iii. The review consists of three chapters. Chapter I deals with developments in the field of insurance supervision, with cases where, for example, insurance control legislation has been adopted or amended or where changes have occurred in the structure or functions of the insurance supervisory authority. Chapter II deals with State participation in insurance and reviews the different degrees of participation, ranging from mere participation of the State in domestic insurance concerns as an ordinary shareholder to nationalization of the whole insurance industry. Chapter III deals with the developments that have taken place in the field of regional co-operation in relation to insurance. In this chapter, the origin, objectives and activities of the organizations operating in this field are reviewed. Where, however, the secretariat has been unable to obtain information about the recent activities of certain organizations, it has confined itself to a review of their origins and objectives.

1/ See the Committee's report on its second session (TD/B/118/Rev.1 - TD/B/C.3/51/Rev.1), Annex I, section A (Insurance), para. 6.

CHAPTER I

DEVELOPMENTS IN THE FIELD OF INSURANCE SUPERVISION

1. During the period under review, a large number of developing countries have become increasingly aware of the importance of insurance supervision as a means of strengthening the insurance market, of safeguarding the interests of policy holders and of co-ordinating the activities of the insurance industry within the framework of national development plans. This heightened awareness of the importance of establishing a really adequate system of insurance supervision has been reflected in a spate of legislative and administrative activity, the salient features of which form the subject matter of the present chapter.

2. One of the most striking developments has been that which occurred recently in Ethiopia. For many years the insurance industry in Ethiopia had been characterized by the absence of any insurance control legislation regulating the operation of insurance enterprises. The promulgation in 1970 of the Ethiopian Insurance Proclamation changed this situation. The Proclamation, which follows much the same pattern as insurance control legislation in other developing countries, recognizes "reliable insurance institutions" as a crucial factor in strengthening the national economy and states that this objective "will be further promoted and the public interest better safeguarded by the enactment of a law requiring control and regulation of the insurance business."1/

3. Like most insurance control legislation, the Ethiopian Insurance Proclamation enacts certain provisions governing the establishment of insurance enterprises in the country. A prospective insurer must be a domestic share company with a fully subscribed capital. The Proclamation lays special stress on the proportion of the share capital which has to be paid up; 50 per cent of the capital must be paid up and deposited with the Central Bank and the remaining 50 per cent must be paid up within three years from the date of the issuance of the insurance licence. Out of the paid-up capital, 51 per cent in the case of general insurance business and 30 per cent in the case of life insurance business must be held by Ethiopian nationals or national companies. The Proclamation further stipulates that every insurer shall deposit 15 per cent of the paid-up capital either in cash or in securities belonging

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1/ Proclamation No. 281 of 1970.

to the Ethiopian Government in relation to each class of insurance business. The Proclamation also deals with the question of the margin of solvency, which should amount to 15 per cent of the insurer's paid-up capital or one-tenth of the general premium income arising from the transactions related to the last preceding financial year by whichever amount is the greater.

4. Besides the significant development in Ethiopian insurance legislation, important legislative amendments have been adopted in other developing countries where insurance control legislation was already in existence. Such amendments have been enacted in the following countries: Argentina, Barbados, Bolivia, Botswana, Brazil, Cambodia, Central African Republic, Chile, Colombia, Costa Rica, Dominician Republic, Ecuador, Fiji, Ghana, Guyana, India, Iraq, Jamaica, Kenya, Kuwait, Lebanon, Liberia, Libya, Malawi, Malaysia, Nicaragua, Nigeria, Pakistan, Panama, People's Republic of the Congo, Philippines, Republic of Viet-Nam, Senegal, Singapore, Syrian Arab Republic, Thailand, Tunisia, Togo, Uganda, United Republic of Tanzania and Venezuela.

5. The developments which have taken place in this sphere cover two main stages of insurance supervision: first, the basic conditions which an insurance enterprise must satisfy in order to be authorized to commence operations in the country and, secondly, the conditions which an insurance enterprise must observe while transacting insurance business.

6. As far as the first stage is concerned, namely, conditions for commencing insurance business, fourteen developing countries have introduced certain amendments in respect of capital requirements. In adopting these amendments, these countries followed two different methods. Eight countries (Argentina, Chile, Dominican Republic, Ghana, Lebanon, Libya, Thailand, Venezuela) enacted amendments whereby the minimum capital requirements were fixed at a certain level irrespective of the class of insurance to be transacted. Compared with the financial conditions for commencing insurance business as laid down in the early sixties, the minimum capital requirements in Argentina show different rates of increase in respect of the various forms of insurance enterprises. The greatest increase has been experienced by regional co-operatives transacting certain classes of insurance, whilst other kinds of insurance enterprises have witnessed the smallest increase among all the insurance entities. In one case, Lebanon, the insurance law, although fixing minimum capital requirements per company, exempts certain mutual insurance enterprises as well as Lloyd's Underwriters from such requirements.

7. In seven other countries (Bardabos, Brazil, Ecuador, Liberia, Nicaragua, Pakistan and Panama) amendments have been enacted whereby the minimum capital requirements were fixed according to the nature of the insurance business which an enterprise would be willing to transact. While legislative amendments in six of these countries prescribe the same minimum capital requirements for both national and foreign insurance enterprises, Liberia has laid down different capital requirements for national and for foreign enterprises.

8. The laws of some of the countries under review, namely those of the Dominican Republic, Kenya, Liberia and Venezuela, link the condition stipulating minimum capital requirements, as a pre-condition for the establishment of insurance enterprises, to the nationality of the shareholders. These laws place special emphasis on the portions of the share capital that should be held by the nationals of the country in which the insurance enterprise is to operate. Unless it fulfils this condition which in some instances prescribes a holding of 50 per cent of the share capital by nationals, an insurance enterprise is not permitted to transact business in the country.

9. Besides the aforementioned amendments introduced in the insurance legislation of some of the developing countries in respect of minimum capital requirements as a pre-requisite for the commencement of insurance business, Barbados, Chile, Dominican Republic, Ghana, Guyana, Lebanon, Liberia, Pakistan, Philippines, Thailand, Togo and Venezuela also introduced changes in respect of initial and other deposits which have to be furnished in order that an insurance enterprise may transact the classes of insurance it wishes to carry on. In relation to the question of initial deposits, the legislators in developing countries have followed different patterns in laying down legislative provisions in respect of such amendments. In some countries, for instance, the insurance legislation fixing the amount of deposits makes no distinction between national and foreign insurance enterprises, whilst other countries make this distinction. Furthermore, in some cases deposits are fixed according to the number of classes of business transacted (without specifying the nature of each class), whilst in other cases it is the nature of the classes of insurance business which determines the amount of the deposits. In the latter cases, various methods have been adopted, e.g. deposits vary with certain combination of classes of insurance or deposits remain constant for each class irrespective of whether that class of insurance is or is not combined with another class. Finally, in some countries deposits are fixed on a company basis, irrespective of both the number of the classes of insurance an enterprise would transact and the nature of those classes.

10. As far as the registration of insurance enterprises is concerned, only five countries - Fiji, Guyana, Lebanon, Malawi and Nigeria - have introduced changes in their legislation, by specifying that insurance enterprises would not be permitted to transact business unless registered in the country. In the Lebanon, a foreign insurance enterprise may not be registered unless it produces a certificate to the effect that the laws of its own country also permit insurance enterprises of the host country to operate in its territory (reciprocity of establishment). However, it is stated that such a condition would not be applicable to countries where private insurance enterprises do not exist.

11. As has already been mentioned, these amendments are not confined to provisions relating to the commencement of insurance business but include provisions dealing with the conduct of insurance business. It is undoubtedly the task of the supervisory authority to ensure that when once an insurance enterprise has been permitted to operate in the country, it complies with certain requirements as a condition of its remaining in the insurance market. The most important of these requirements concerns the establishment of adequate technical reserves.

12. In order to meet its liabilities, every insurance enterprise must establish technical reserves. The setting-up of such reserves and their magnitude are controlled by the State, since they are necessary for the safeguarding of the policy holders' or beneficiaries' interests, and the governments in most countries are therefore concerned with the methods used in calculating reserves so that liabilities may be accurately assessed. For this reason, most countries have promulgated some regulations in order to ensure that the insurance companies maintain an acceptable minimum level of solvency. Among the developing countries, ten countries (Brazil, Central African Republic, Ecuador, Chile, Libya, Nicaragua, Philippines, Senegal, Singapore and Togo) have introduced changes during the period under consideration. In these countries, technical reserves range between 33-1/3 and 50 per cent of the premiums less commissions. In one country (Brazil) reserves for unexpired risks cannot be calculated on a net basis if the reinsurance is not effected locally.

13. In Liberia, legislative amendments have been adopted in respect of the margin of solvency. In that country, an insurance enterprise is required to show that its assets exceed its liabilities by a specific amount or by a certain percentage of its premium income from its non-life business, whichever is the greater. As such, the determination of the solvency margin in non-life business does take into consideration the examination of technical reserves.

14. Having laid down the necessary provisions for technical reserves, the legislators of Chile, Colombia, Ecuador, Fiji, Ghana, Jamaica, Libya, Malaysia, Nicaragua, Nigeria, Pakistan, Panama and Venezuela have introduced certain amendments in respect of investments serving to cover the prescribed reserves. The regulations stipulate that insurance enterprises must invest a certain portion of their funds in the country where the premiums originate. The amendments however not only prescribe the percentage to be invested but also specify the fields for such investment (government bonds, stocks); such investments have to satisfy the generally recognized principles of security, liquidity and yield.

15. The role of insurance intermediaries has been recognized by many developing countries. When first formulating their insurance legislation these countries enacted provisions governing the different aspects of insurance intermediaries. Barbados, Chile, Colombia, Dominican Republic, India, Jamaica, Malawi, Nicaragua, Pakistan, Senegal and the Syrian Arab Republic have introduced changes in this field. Some of them lay emphasis on regulating the operations of insurance agents and brokers and on the specific percentage of the premium they are entitled to receive as commission. Others stress the conditions which an insurance agent or broker must fulfil before he can engage in the trade.

16. Provisions relating to foreign exchange regulations in respect of international insurance transactions have been introduced in four developing countries (Colombia, Ecuador, Pakistan and Peru) and the supervisory authority was made directly or indirectly responsible for enforcing them. In countries where the Superintendent of Banks is at the same time the Superintendent of Insurance, he may exercise a certain direct control over international insurance and reinsurance transactions and the funds arising therefrom by granting authorization for the payment of premiums in foreign currency, for the transfer of reinsurance premiums and for insurance abroad of risks which, for specific reasons, cannot be insured in the local insurance market. In some other cases, the amendments to the insurance legislation fix a certain percentage as retention to be kept in the country. An insurance enterprise can be asked either to retain part of the premiums or to cede part of them to local reinsurers only.

17. In addition to the widespread changes which have occurred in the laws and regulations governing the transaction of insurance business, at least three developing countries (the Dominican Republic, Pakistan and the Syrian Arab Republic) have recently taken measures to upgrade the status of their supervisory authorities. Until very

recently the Supervisory Authority of the Dominican Republic was subordinated to another financial institution, the State Bank, and the Superintendent of Banks was responsible for the supervision of insurance industry. However, the functions of the supervisory authority have, lately, been separated from those of the Superintendent of Banks, and subsequently an independent insurance supervisory authority has been constituted to be responsible for controlling and supervising insurance enterprises.

18. Similarly, in Pakistan and the Syrian Arab Republic, broad powers have recently been vested in the supervisory authorities by virtue of amendments to the legislation which are designed to enable them to take more effective measures for guaranteeing the proper functioning of the insurance industry. Inter alia, the new legislation establishes stringent criteria for the selection of the insurance experts and officials responsible for the inspection and supervision of insurance business. It also provides that both the Directorate of Insurance and the State Insurance Company shall be empowered to control the insurance business, the latter being responsible primarily for problems of a technical nature, the former for non-technical (general policy) questions.

19. These developments are in line with the general tendency of developing countries to attach great importance to the supervisory authority. Most, if not all, developing countries have accordingly placed this authority under a key ministry, e.g. the Ministry of Finance or Economic Affairs or Trade, and have appointed an Insurance Controller or Commissioner to carry out the task of supervision.

CHAPTER II

STATE PARTICIPATION IN THE INSURANCE INDUSTRY

20. In the preceding chapter the examination of developments in the field of insurance supervision has shown that the Governments of developing countries have clearly recognized the vital importance of regulating the transaction of insurance business in their territories. The Governments of many developing countries, however, have also recognized the importance of promoting the establishment of domestic insurance institutions on their national insurance markets, a need felt very strongly on those markets which, until quite recently, were largely in the hands of foreign insurance concerns operating mainly on an agency basis.

21. The nature and extent of State intervention aimed at promoting the domestic insurance market and its institutions can vary considerably. The State may participate in the insurance industry by becoming a shareholder in some existing insurance concerns, or by creating new, entirely State-owned institutions, or it may even take over the entire industry (State monopoly). In some other cases, the State may eliminate all foreign interests from the national insurance market by obliging all foreign insurance enterprises operating therein either to wind up their business, or to sell their enterprises or foreign share in domestic enterprises to nationals of the country.

22. In the present chapter it is proposed to deal with recent developments of this nature. The countries in which such developments have taken place in the period under review are the following: Chile, China (Taiwan), Colombia, India, Kenya, Libya, Nigeria, People's Republic of the Congo, Republic of Korea, Singapore, Somalia, Southern Yemen, Sudan, Uganda and Uruguay.

23. In Libya and Sudan the Governments decided to exclude all foreign participation in the insurance industry. As a first step in this process, branches and agencies of foreign insurance enterprises were prohibited from issuing new insurance policies. However, until such time as existing policies could be transferred to domestic insurance companies, the foreign enterprises remained responsible for their servicing. In this way, a gradual transfer from the foreign to the domestic insurance companies was ensured.

24. With regard to foreign participation in the domestic insurance concerns, the Governments of both Libya and Sudan decided to take over the shares which had previously been held by foreigners. In Libya, the Government decreed that it would participate to the extent of 60 per cent in all insurance enterprises, the major part of this 60 per cent to consist of shares hitherto held by foreign interests, the remainder of shares held by private domestic interests. In Sudan, a similar result was achieved, albeit indirectly, when the Government took over domestic and foreign banking institutions,

major import-export firms and other enterprises which held shares in domestic insurance companies. As a result of these various measures, the State in each case acquired a substantial interest in the domestic insurance industry, without, however, totally excluding private domestic interests.

25. Events in Uganda have followed a slightly different pattern. There, the Government decided, in principle, to participate to the extent of at least 60 per cent in the capital of every insurance company which, under the new law, had to be incorporated in the country.

26. Unlike Libya and Sudan, Uganda did not achieve its object by excluding all foreign interests, but has left the way open to the admission of new companies to the domestic market. Nonetheless, this action marks a crucial change in the situation which had existed since the country became independent some years ago. At that time, the insurance market had consisted mainly of foreign insurance agencies, with private domestic capital playing a quite insignificant role in the local insurance market.

27. The following paragraphs will deal with the case where the State does not participate in existing insurance enterprises but creates new institutions with which a certain type of insurance (for example, agricultural insurance) must be placed or with which local private companies must reinsure a specific percentage of the business. These institutions can also compete with private insurance companies in respect of insurance business in classes of insurance not reserved for the State enterprise.

28. During the period under review, in five developing countries - China (Taiwan), Kenya, Nigeria, the People's Republic of the Congo and Singapore - insurance and reinsurance institutions have been established in which the State subscribed the entire capital and is consequently the only shareholder or alternatively holds such shares through its institutions which act as shareholders. These institutions function in a non-monopolized insurance market.

29. The State Reinsurance Corporation of Kenya was established in 1970 and its functions are to undertake, carry on and transact in any manner whatsoever, whether in Kenya or elsewhere, the business of insurance and reinsurance of every kind, class, nature and description whatsoever. Insurance enterprises must reinsure compulsorily a certain percentage of their business with the Corporation, which has also the right to refuse any reinsurance accommodations.

30. The National Insurance Corporation of Nigeria (NICON) was formed in the second half of 1969. The Federal Government, which is the sole shareholder, advanced a loan to the Corporation to provide for the initial expenses and working capital. The Corporation is empowered to insure any property belonging to the Federal Government or to the Government of any State in the Federation or to any statutory corporation and to insure

any property in which the Government has an interest. As far as reinsurance is concerned it can conclude reinsurance treaties with any reinsurer in respect of any risk underwritten by it and can retrocede any part of any risk accepted by it. The Corporation can also act as insurance agent or broker in relation to any insurance. Furthermore, it can have financial interests in any enterprise, and can organize training courses for employees of any registered insurer and even appoint agents. Registered insurers are obliged to reinsure with the Corporation 10 per cent of the sum insured under each policy in respect of the insurance of any risk other than fire, life and marine. The Corporation decides the percentage it pays as insurance commission in respect of obligatory cessions; but it does not pay any profit commission to the insurance companies.1/

31. The Insurance Corporation of Singapore came into existence in the second half of 1969. Its capital was advanced mainly by the Government and the Development Bank of Singapore. The Corporation is to transact both general and life insurance business.

32. In some other countries (Chile, Colombia, Republic of Korea and Uruguay) special measures have been taken in a field which is not always considered as insurance proper, namely export credit insurance. The Colombian Export Promotion Fund, for instance, is designed to cover political and unusual risks connected with foreign trade and also assume risks originating from credit guarantees advanced for production, transport and storage purposes, as well as those risks resulting from fluctuations in exchange rates and other risks which the Board of the Fund might deem necessary to cover after obtaining the consent of the Government. The law has also established the maximum limit of the risks to be covered by the Fund. In case of commercial risks arising out of insolvency or deferred payment the maximum limit was fixed at 75 per cent of the net loss, while for political and extraordinary risks the maximum limit is 30 per cent of the net loss. The Fund is also authorized to accept political and extraordinary risks arising out of Government measures in respect of transfer restrictions or inconvertibility of currency.

33. Thus far this chapter has dealt with situations where the State, although substantially involved in the domestic insurance market, has not a monopoly. It will now proceed to discuss two cases where the Governments of developing countries (the People's Republic of Southern Yemen and India) have decided, during the period under review, to take over the entire domestic insurance industry.

1/ National Insurance Corporation of Nigeria, Decree 1969.

34. Before it became a State monopoly, the insurance market of the People's Republic of Southern Yemen had been characterized by the existence of foreign insurance enterprises which transacted different classes of insurance business. The taking over by the State of all foreign insurance and reinsurance enterprises as well as branches, together with other financial and commercial institutions, was considered by the Government of that country as the first stage of the process of achieving economic independence. The action took the form of the transformation of twelve insurance and reinsurance enterprises and branches into a single insurance and reinsurance enterprise.

35. An Insurance Board, financially and administratively independent, was established. The main functions of the Insurance Board in the transitional period are to operate in all classes of insurance and reinsurance business through the insurance enterprises and their branches. One of the major and perhaps the most important of the functions of the Insurance Board is to ensure the amalgamation of the insurance and reinsurance enterprises and to decide on the establishment of a State insurance and reinsurance company. The Board was made a policy-making organ as well as an executive body. It formulates and carries out the State insurance and reinsurance business policy. This policy is intended to reflect the fundamental structural change in the country's insurance market. The newly established enterprise, the National Insurance and Reinsurance Company has already concluded reinsurance treaties with different reinsurers and has recently begun to accept reinsurance, thus operating as reinsurer in conformity with the provisions laid down in the law establishing it.

36. In the current year (1971) an important event took place in the Indian insurance market, which was until very recently, characterized by the existence of a State sector in respect of life insurance business - monopolized by the State fifteen years ago - and of a semi-private sector in relation to the general insurance business in which both domestic and foreign insurance enterprises as well as the Government participated. This phenomenon, which distinguished the Indian insurance market from many others in the developing countries, no longer exists, as the Government has taken over recently the general insurance business of both domestic and foreign insurers. This measure has profoundly transformed the structure of the Indian market for general insurance business from a sector in which both the Government and the private insurers transacted business to a sector completely monopolized by the State.

CHAPTER III

REGIONAL CO-OPERATION IN INSURANCE

37. Regional co-operation in insurance covers various kinds of joint or co-ordinated ventures of countries belonging to the same geographical region. It assumes different forms, depending on the kind of service that is required.

38. With a view to achieving variety of purposes, a series of regional actions has been undertaken by the developing countries. The purpose of this chapter is to review the origin, scope, objectives and activities of the regional organizations established for these purposes.

39. The emergence of insurance projects based on regional co-operation was in many instances preceded by other forms of co-operation in various economic fields in the same region which greatly facilitated the establishment of regional co-operation in relation to insurance and reinsurance in Africa, Asia and Latin America.

40. Thus, in Africa, the existence of a framework of economic co-operation between France and the French-speaking African States facilitated the establishment, in the early 'sixties, of the International Conference of African, French and Malagasy States on Insurance Supervision (CICA). Some thirteen French-speaking African States and France signed in 1962 the Convention on Co-operation in the Supervision of Insurance Undertakings and Operations.1/

41. The main aims of CICA are: (i) to harmonize the laws and regulations concerning insurance undertakings and operations in the member countries; (ii) to ensure and facilitate transfers in respect of the settlement of claims in case of exchange restrictions; (iii) to exchange insurance data; (iv) to protect the interests of policy holders through effective control at the national level. More generally, the Conference is empowered to deal with all questions concerning insurance.

42. In the course of 1970, CICA's General Assembly met on two occasions to discuss a number of important problems in the field of insurance. At its Twentieth Session it debated questions relating to the simplification and clarification of life insurance policies as well as the supervision of insurance agencies in their places of business.

1/ Cameroon, the Central African Republic, Chad, the People's Republic of the Congo, the Ivory Coast, Dahomey, Gabon, the Malagasy Republic, Mauritania, Niger, Senegal, Togo, Upper Volta.

43. At its Twenty-first Session held later in the same year, a large number of questions were discussed, including the global solvency of insurance companies, the coverage of regulated liabilities and the investment of technical reserves in the countries where the premiums arise, proposals regarding the constitution and function of a body of insurance controllers for the African and Malagasy States, the establishment of an insurance training institute, the possibility of compiling mortality tables for the African States, the study of the automobile insurance market of the African and Malagasy States and the modification and presentation of statistical information needed for the study of the evolution of the market in the region.

44. The report submitted to the CICA Assembly in 1970 dealt with (i) the achievements, including the harmonization of laws and regulations which, in respect of the control of global solvency, enables each of the African and Malagasy States to judge the financial position of any insurance company carrying on business in its territory; (ii) the investment of technical reserves in the national economy, in conformity with the recommendations of UNCTAD; (iii) the continuance and diversification of the technical assistance rendered by the Permanent Secretariat to the supervisory authorities of CICA; (iv) general studies relating to the functioning of agricultural mutual insurance companies, the marine insurance market and the organization of professional insurers and their intermediaries.

45. The report made certain recommendations regarding (i) the training of African personnel in insurance concerns as well as in supervisory office, (ii) the improvement of the working methods of insurance companies, and (iii) the possibility of establishing an African insurance institute.

46. Another organization whose members come at least in part from countries situated in the African continent is the General Arab Insurance Federation (GAIF). Established in 1964, this organization unlike CICA, is a non-governmental organization, membership in which is open to companies and insurance organizations in the Arab world. The broad aim of GAIF is to encourage regional co-operation in insurance through the exchange of information and ideas. More specifically, it has undertaken to "arabize" insurance terminology by standardizing insurance expressions and drafting Arabic versions of insurance policies, reinsurance treaties and other forms and documents required in the insurance business.

47. One of the main achievements of the GAIF has been the creation of an aviation insurance pool which has been set up by a number of Arab insurance companies in conformity with the recommendation of GAIF. Aviation insurance business is to be ceded to the Misr Insurance Company which would also be responsible for the management of the pool. The maximum treaty limits have been fixed at US $150,000 for any one accident or any one craft in respect of the hull and the same amount in respect of liabilities towards third parties.

48. More recently, at its Fourth Congress held in 1968, GAIF adopted a number of resolutions, the most important of which concerned the establishment of an inter-Arab insurance card system designed to facilitate the passage of motor vehicles through Arab countries and to co-ordinate existing legislation in respect of motor vehicle insurance. A number of comparative studies were also carried out on marine policies as well as on the legislation dealing with the supervision of insurance companies in the Arab countries.

49. At a seminar held in the same year, a number of insurance subjects were examined, including special studies of specific aspects of insurance (warranties), problems arising from the amalgamation of insurance companies, new trends in reinsurance, engineering insurance reports, statistics concerning the insurance market in certain Arab countries and a comparative study concerning fire insurance policies.

50. The Fifth Congress of GAIF was held in 1969 when its Council decided that the inter-Arab insurance card system should be unified and a model card distributed to all members until the establishment of a uniform insurance office. The Congress approved the project of the Fire Insurance Pool which is to be managed by the Tunisian Insurance and Reinsurance Company. The Pool commenced operations in 1971. The Marine Insurance Pool is scheduled to be operational in 1972. The Kuwait Insurance Company is to be responsible for its management and the Engineering Insurance Pool is to be run by the Iraqi Reinsurance Company.

51. The Sixth Congress of GAIF approved the Agreement establishing the Inter-Arab Reinsurance Company whose formation was urged by member companies and organizations. The Congress authorized the Engineering Insurance Pool to accept cessions from all over the world and also urged member companies to strengthen and enhance their co-operation with the pools in both cessions and acceptances, especially in respect of large risks.

52. At that Congress the membership of the GAIF was strengthened by the accession of six more insurance companies.

53. Established in 1964, the Federation of Afro-Asian Insurers and Reinsurers (FAIR) is an example of inter-regional co-operation in insurance. Membership is of two kinds: (i) ordinary membership, which is open to any African or Asian national insurance or reinsurance company or holding organization, provided that such company or holding organization is at least 51 per cent owned by Africans or Asians and that its head office is situated in Africa or Asia; (ii) associate membership which is open to any other African or Asian national insurance and reinsurance company having its head office in Asia or Africa, and to any insurance association or institution which is incorporated in any African or Asian country. At present, the ordinary membership of FAIR is composed of thirty-one companies or holding organizations from eighteen African and Asian countries.1/

54. Besides establishing contacts and collecting and exchanging information and data in respect of insurance and reinsurance, FAIR has been endeavouring to promote business relations among its members.

55. As far as the activities of FAIR are concerned, two important events occurred in the last quarter of 1968: the Second General Meeting and the Afro-Asian Seminar on Management Problems of Insurance.

56. At its Second General Meeting held in 1968, the Federation, bearing in mind its objectives and in order to expedite their achievement, asked its Secretariat to pursue a programme of work aiming at, among other things, (i) intensifying the efforts to increase FAIR's membership so as to make it a fully representative body of Afro-Asian interest; (ii) strengthening the national insurance and reinsurance markets in the area; (iii) encouraging a bilateral exchange of reinsurance business; (iv) establishing reinsurance pools; (v) utilizing the existing training facilities; and (vi) issuing bulletins on insurance and reinsurance.

57. At the Seminar, problems related to different aspects of insurance and reinsurance management were discussed. These included problems of personnel, with particular emphasis on their selection and professional training. Questions relating to the application of modern organizational methods and to the investment policy of individual insurance companies were also dealt with.

1/ From Africa: Algeria, Arab Republic of Egypt, Ghana, Libya, Morocco, Nigeria, Tunisia.

From Asia: China (Taiwan), India, Iraq, Jordan, Kuwait, Lebanon, Pakistan, Qatar, Republic of Korea, Republic of Viet-Nam, Syrian Arab Republic.

58. In Asia, one of the most important regional groupings is the East Asian Insurance Congress (EAIC), a non-governmental organization with a membership (as of September 1969) of 226 individuals and 90 companies.[1/] The basic aim of the EAIC is to encourage co-operation in insurance within the region by promoting the exchange of information about insurance matters amongst its members. A conference is held every two years at which papers on insurance may be read and the organization's membership is kept informed of the latest developments in insurance. The body responsible for giving concrete expression to the organization's aims is the Executive Board. During the period under review, the EAIC's most significant venture has been the formation of an Asian Reinsurance Pool.

59. The idea of establishing an Asian Reinsurance Pool (ARP) was first discussed in 1962, when the First General Conference of the East Asian Insurance Congress was held. At the Second General Conference, which was convened two years later, the Congress was urged to take steps to form such a pool. In 1966, the Congress approved the report recommending the establishment of an ARP to exchange insurance business. The main idea behind such exchanges was to maximize the underwriting profits resulting from a wider spread of risks through reciprocal exchanges among members participating. The Fourth General Conference of EAIC adopted a resolution establishing the Asian Reinsurance Pool.

60. The Pool has the following objectives:

(a) to maximize underwriting profits resulting from a wider spread of risks through reciprocal exchange among members of the Pool;

(b) to retain in Asia a part of the reinsurance premiums that usually leave this region;

(c) to promote better understanding among the countries of Asia by working together in an atmosphere of mutual co-operation;

(d) to serve as a vehicle for the dissemination of knowledge about insurance theory, practice and experience;

(e) to serve as the nucleus for an insurance statistical centre for Asia;

(f) to serve as the guiding spirit for the formation in Asia of an advisory body comparable to the Fire Offices Committee, the Accident Offices Association and Fire Protection Association of the United Kingdom;

(g) to provide the nucleus for a future Asian Reinsurance Corporation.

1/ Companies belonging to the following countries: Burma, Hong Kong, Indonesia, Japan, Malaysia, Okinawa, Philippines, Republic of Korea, Republic of Viet-Nam, Singapore, Thailand.

61. Membership of the ARP is open to national pools. In Asia, special emphasis has been laid on the nature of such national pools, which must be formed by binding together individual insurance companies of a particular Asian country into a national reinsurance pool for the purpose of participating in the ARP and organized in accordance with the guidelines set up by the ARP. Membership in the ARP is also open to State-owned or State-controlled reinsurance corporations. Individual insurance companies operating in the Asian continent can also become members provided that there are no national pools in the territory where they transact business or provided that there is no State-owned or State-controlled reinsurance corporation, and provided that such individual companies comply with certain conditions laid down by the ARP. An individual insurance company loses its right of membership if a national pool is established, or if State-owned or controlled reinsurance corporations are set up in the territory where it is operating.

62. From the nature of its membership, it is evident that the ARP sought to establish itself on a broad base and thus opened the way for companies operating in insurance markets with very varied structural characteristics to participate in the Pool without any structural adjustment.

63. The recent activities of the Board of Directors of the ARP clearly reflect the great interest which the members of the ARP attach to the practical realization of the Pool's objectives. One of the most important issues - and one which has received due consideration - concerns the retention capacity of the domestic insurance market. The need to increase the level of retention capacity was recognized. A further development in the ARP was the decision of the Board of Directors to establish a study committee to investigate the possibility of introducing life insurance business into the Pool. Though this was only a first step, it showed none-the-less the interest of the ARP to further and foster co-operation in the region. Furthermore, it was recommended that the Asian insurance companies which have not yet joined the ARP should be invited to do so.

64. At the Fifth General Conference of EAIC, which was held late in 1970, the activities and progress of the Asian Reinsurance Pool were reviewed. The delegates reported on the "growth of the insurance industry" in their countries. The Conference discussed, among other subjects, questions relating to (a) the future development of the life insurance industry in East Asia, (b) the shortage of reinsurance facilities and (c) insurance training.

65. The formation of the Asian Association of Insurance Commissioners (AAIC), membership in which is open mainly to the Government officials responsible in their own countries for supervising insurance companies, was an important event in this region.[1/] Potentially, the AAIC can play a great role in the insurance field in Asia, for the Insurance Commissioner is empowered to influence the insurance industry in his country, being the authority responsible for the implementation of the Government's directives.[2/]

66. The principal objects of the AAIC as laid down in its constitution are to exchange professional information about supervisory administration of insurance among its members and to promote the development of insurance supervisory services on a sound basis.

67. To achieve its objects the AAIC established three Committees: (i) the Statistical and Information Committee, to compile and summarize statistical data of all States concerned and redistribute the data to all members of the AAIC. The Committee is also responsible for preparing reports on matters of vital importance to the furtherance of the AAIC's aims and objectives; (ii) the Liaison and Public Relations Committee, to deal with problems referred to the Association and to report its findings and recommendations to the AAIC; (iii) the Legislative Committee, to conduct studies with a view to the establishment of model insurance legislation.

68. Another, albeit rather heterogeneous, regional grouping is the Regional Co-operation for Development (RCD), set up in 1964 by the Governments of Iran, Pakistan and Turkey. The programme of the RCD covers all the main aspects of the economies of these countries, including insurance.

69. The RCD countries have recognized that the central objectives of their regional co-operation in the field of insurance and reinsurance should be the strengthening of the foreign exchange position and the improvement of insurance services in the region.

70. In the light of these objectives, the RCD countries have taken a number of measures designed to promote regional co-operation in insurance and reinsurance. The measures taken consist essentially of the establishment of Reinsurance Pools and an RCD Insurance Centre.

1/ The Insurance Commissioners of China (Taiwan), Indonesia, Japan, Malaysia, Philippines, Republic of Korea, Republic of Viet-Nam and Thailand attended the foundation meeting.

2/ The secretariat of UNCTAD, within the context of its technical assistance activities and in co-operation with ECAFE, will organize in March 1972 at Bangkok a meeting of insurance commissioners of the developing countries members of ECAFE.

71. The RCD Pools were formed in the second half of the 1960s and within a few months of their creation started transacting insurance business at a very encouraging rate owing to the co-operation they received from the national insurance companies in the region. Membership of the pools is open to the reinsurance corporations of the three countries as founder members and to any insurance company domiciled and registered in Iran, Pakistan or Turkey and ceding reinsurance business to the pools.

72. The reinsurance corporation in each country was entrusted with the management of the pool operating in its territory. In carrying out its managerial functions, the reinsurance corporation is to be assisted by a Technical Committee representing the RCD countries. The three pools have a single Board of Management which possesses extensive powers in respect of the management of the Pools.

73. The provisions setting out objectives of the Pools as then formulated explicitly state that the Pools should aim at accepting reinsurance as well as retrocession business originating from within or outside the region, promoting regional co-operation among insurers and reinsurers, and providing additional underwriting capacity within the region. The intention is to help the RCD countries to retain more insurance business on their own account than in the past, and so to reduce the foreign exchange outflow resulting from insurance and reinsurance transactions in the RCD region and of individual members. An additional objective is to improve the standard of services provided by insurers in the region.

74. The RCD Insurance Centre, established in the mid-1960s, has four main functions: first, to act as a "thinking cell" for formulating proposals which might lead to the furtherance of regional co-operation in the field of insurance; secondly, to serve as a clearing house for the exchange of professional, personnel and technical information from the reinsurance corporations, insurance companies and associations of the region; thirdly, to serve as a channel facilitating the exchange of insurance business among companies and reinsurance corporations of the three countries; and fourthly, to be responsible for organizing joint projects related to insurance in the three countries.

75. In the Latin American Continent three organizations exist for regional co-operation in the field of insurance: the Hemispheric Insurance Conference, the Insurance Congress of Central America and Panama and the Latin American Reinsurance Pool (PLAR).

76. The Hemispheric Insurance Conference was formed in 1965 as a non-governmental organization, membership in which is open to insurance and reinsurance associations of the region. However, in the absence of such associations, insurance and reinsurance companies would be accepted as members.

77. The Conference's main objectives are (i) to promote the private insurance and reinsurance industry on a sound basis in order that it should render good service to the public, (ii) to exchange insurance experience and technical data, (iii) to contribute to the harmonization of insurance legislation, contracts and procedure in the continent, and, (iv) to help in preparing insurance and reinsurance studies and establishing research centres.

78. The Twelfth Hemispheric Insurance Conference held in 1969 in Chile1/ discussed different topics, including a plan for insurance education and training, world trends in insurance and reinsurance, as well as questions relating to insurance and public opinion.

79. The Insurance Congress of Central America and Panama is another body concerned with regional co-operation in the field of insurance and reinsurance. At its most recent Conference, held in 1969, resolutions were adopted concerning the establishment of a reinsurance company to undertake reciprocal reinsurance among the insurers of the member countries. Further resolutions were adopted contemplating the formulation of a Central American Insurance Institute aimed at enlarging educational facilities to cope with the shortage of trained personnel.

80. The Latin American Reinsurance Pool (PLAR) is now being formed by eight companies operating in four Latin American countries, namely: Bolivia, Colombia, Nicaragua and Paraguay. The PLAR's policy is to seek the participation of small, sound and bona fide companies that intend to become long-term members.

1/ The Twelfth Conference was attended by representatives of companies in the following countries: Argentina, Bermuda, Bolivia, Brazil, Colombia, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, the United States of America, Venezuela.