Distr.
GENERAL

TD/B/C.3/169
24 June 1980

ENGLISH
Original: FRENCH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing related to Trade
Ninth session (Second part)
Geneva, 29 September 1980
Item 7 of the provisional agenda

INSURANCE

Insurance in developing countries

Developments in 1977, 1978 and 1979

Study by the UNCTAD secretariat

Contents

INTRODUCTION

(i) At its second session (April 1967), the Committee on Invisibles and Financing related to Trade requested the Secretary-General of UNCTAD "to carry out at least once every two years reviews of developments in insurance, with special reference to developing countries". 1/ The present document, covering the period 1977-1979, has been prepared pursuant to this request. 2/

(ii) As in the past, part of the information and particulars needed for the preparation of this study was supplied to the UNCTAD secretariat by the Governments of 33 developing countries in response to a note verbale from the Secretary-General requesting them to help the secretariat collect the necessary information. In view of the scarcity of government information, however, it has once more been necessary to draw on very diverse private sources of information, especially trade journals and periodicals. It has not of course been possible to verify the accuracy and coverage of the information obtained in this way.

(iii) Generally speaking, the secretariat has tried to present the new facts in the light of their relative importance to the development of the insurance sector in the third world. Part one of this study deals with national direct insurance markets, and in particular with their technical and economic structure, growth and evolution. Part two deals with reinsurance developments. Part three, covers regional and interregional co-operation among developing countries.

(iv) Despite the secretariat's efforts, and owing to the very limited number of countries producing suitable statistics, it has been impossible to include in this study a quantitative analysis of insurance transactions carried out in developing countries. Tables indicating orders of magnitude of premium turnover and insurance growth rates in the various developing regions nevertheless appear in another secretariat document, "Third World Insurance at the end of the Seventies". 3/

1/ See Official Records of the Trade and Development Board, Fifth Session, Supplement No. 3 (TD/B/118/Rev.1), annex I, sect. A, para. 6.

2/ The periods 1968-1970, 1971-1972, 1973-1974 and 1975-1976 were dealt with in documents TD/B/C.3/99, TD/B/C.3/107, TD/B/C.3/122/Supp.1 and TD/B/C.3/141, submitted to the Committee on Invisibles and Financing related to Trade at its fifth, sixth, seventh and eighth sessions (December 1971, July 1973, November 1975 and December 1977) respectively.

3/ See document TD/B/C.3/169/Add.1

PART ONE. NATIONAL DIRECT INSURANCE MARKETS

Chapter I. Developments concerning the structure of national markets and the establishment of new local enterprises

1. Generally speaking, the transformation of the insurance markets of the developing countries continued in 1977, 1978 and 1979 with the adoption by the competent authorities of further institutional measures and the establishment of new local enterprises (either wholly local or foreign-influenced). The present chapter deals first with instances where changes, including the establishment of new enterprises, have resulted from government decisions setting up new structures for insurance business, and then with cases where enterprises have been established locally on the basis of the existing system.

2. In regard to the first of these two situations, basic structural changes establishing or consolidating legal or de facto monopolies have taken place in Afghanistan, Iran, Cape Verde, Burundi, Chad, Nicaragua and Mozambique, while in Indonesia, the Republic of Korea, Sri Lanka, the Malagasy Republic and Egypt steps have been taken towards greater liberalization. Measures which scarcely affect the existing systems at all have been adopted in Argentina, New Guinea, Morocco, Bolivia and Trinidad and Tobago. Details of these developments are as follows:

3. In Iran the entire market was taken over by the State in 1979. The arrangements applying to the take-over are not yet known. It is thought probable, however, that the State will compensate nationalized foreign enterprises since their investments in Iran were relatively small, 4/ despite the position these firms occupied in the market.

4. An equally fundamental change in the structure of the market has taken place in Nicaragua, where the Government decided in October 1979 to assume control of the enterprises operating on the local market (10 Nicaraguan companies and 10 foreign subsidiaries). The national authorities based their decision on the ground that the chaotic insurance situation which followed the civil war had to be ended. The conditions on which these insurance interests were transferred to the State apparently include compensation for the former owners in the form of public bonds carrying interest at 6.5 per cent over a period of five years. Business is now handled by the Nicaraguan Institute of Insurance.

5. In Afghanistan the Government decided in 1979 to give the national company exclusive responsibility for insurance-related activities, which until then had been handled by foreign companies and mainly involved average adjustment and loss assessment and settlement. Correspondents of certain foreign companies who were still in business have had to give up their activities.

6. In Cape Verde a decree of 22 April 1978 placed insurance and reinsurance transactions under government control. They are now the responsibility of the social security authorities, particularly where compulsory insurance is concerned. Purchase of insurance abroad is subject to authorization by the Ministry of Finance. Except in a few special cases, the insurance policies in force when the decree took effect may not be renewed on expiry.

4/ World Insurance Report, London, 20 July 1979

7. In connexion with Mozambique, press reports 5/ indicate that the Government has set up a company (the Empresa Mocambicana de Seguros) which has a monopoly of insurance business in Mozambique; this company has accordingly taken over the operations of 18 foreign companies established in the country before it gained independence. According to these reports, the take-over had become essential because the management staff of the foreign agencies were leaving the country. The question of compensation for expropriation remains open.

8. In Chad a national insurance and reinsurance company, Star Nationale, has been set up by the Government. All enterprises under State control or supervision, or in which the State has any kind of financial participation, must place their insurance exclusively with this company. Following the above measure and a second government decision an order of 30 June 1977 providing that all insurance companies must have formal legal status in Chad and giving foreign enterprises operating on the market three years in which to set up local companies,most firms established in Chad have preferred to hand over their portfolios to Star Nationale and withdraw, while taking a financial stake in the latter's capital. Most of these foreign companies are French. Four other foreign companies have nevertheless decided to remain in Chad but to limit their activities to reinsurance, while a fifth (French) company has also decided to remain and to compete with a new national company, even though it has to relinguish to the latter 15 per cent of all the business which it underwrites in Chad.

9. In Burundi a general law on insurance (the Act of 29 June 1977) has entered into force. Almost simultaneously (July 1977) a ministerial order laid down measures applicable to the transfer of current insurance policies to SOCABU, the new national company set up after the promulgation of the Act. SOCABU thus has a monopoly of the Burundi market.

10. In Indonesia the Government has decided to exempt from duty the formation of enterprises owned jointly by nationals and foreigners (joint ventures). The decision in question also extends the period during which joint ventures combining national and foreign interests can be set up. These measures are reported to have had a favourable effect; practically all the foreign companies previously existing in the country are said to have taken up domicile there, with the result that the market will henceforth consist of Indonesian enterprises which are technically and financially stronger than in the past. A recent increase in minimum capital, ordered by the Government in 1977, has contributed further to strengthening these companies. The number of enterprises registered in the country is now 12, which the Government considers should be the maximum. The issue of new licences has therefore been suspended. In addition, regulations exist covering the grant of licences to intermediaries and defining their functions. It is hoped gradually to reduce the number of broking firms to 15 to confine this activity to Indonesians.

11. In Sri Lanka a new enterprise is to be set up with a 51 per cent State holding; the remainder of the capital will be private. The enterprise will carry on all kinds of insurance business and compete with the existing company, which so far has had a monopoly. The new enterprise will be set up after changes have been made in the present insurance law (the 1962 Insurance Corporation Act), which laid the basis for the monopoly now to be terminated. The Government has not only expressed its intention to encourage competition in the domestic market but also hopes to see foreign companies set up in the free zone north of Colombo. It hopes that this will make the free zone an international financial centre.

5/ Financial Times World Insurance Report, London, 21 October 1977.

12. In the Republic of Korea the market has been reorganized, following a government decision. The reorganization aims at strengthening the position of national enterprises while enabling foreign enterprises to establish themselves in the country. Under this measure a new enterprise, namely Konan Insurance Corporation, has been established; it is wholly owned by the State, which guarantees its liabilities. This characteristic enables the enterprise to dispense with a fixed capital. Its functions go well beyond those traditionally vested in such a body; in addition to the underwriting of various classes of insurance and reinsurance, they will extend to many aspects of market supervision. For instance, the Corporation is responsible, under powers delegated to it by the Government, for the following: supervision of all insurance enterprises operating in the Republic of Korea; research education and vocational training; supervision of general conditions of insurance and tariffs; dispute arbitration; and registration and supervision of intermediaries, actuaries and average adjusters.

13. The American Home Assurance Company of New York has recently been authorized to underwrite non-marine insurance business in the Republic of Korea, as has the United Kingdom Royal Insurance, an associate of the local company Oriental Fire and Marine Insurance. While the Government has thus opened the local market to a few foreign companies, at the same time it has authorized Korean enterprises to set up branches abroad. This opportunity was seized immediately by Pan Korea Marine & Fire Insurance Company which has opened an agency in the United Arab Emirates and another in the United Kingdom. The Korean Reinsurance Company has also linked up with a Malaysian enterprise to set up a company in Malaysia. Finally, the Government now permits "life" and "non-life" companies to handle all classes of insurance.

14. In Madagascar the structure of the market was modified by an Order of 1 May 1978 affecting the status of national enterprises. Under the order, insurance business will be handled in future by four different companies, which will retain their status as mercantile companies and continue to operate subject to the insurance supervision legislation.

15. In Egypt a new government policy now permits private insurance enterprises to be established in the country provided they are wholly owned by Egyptian nationals, have a minimum capital of 2 million Egyptian pounds and are the subject of an economic and technical feasibility study approved by the Egyptian Insurance Organisation. In addition, the Egyptian-American Insurance Company has been set up in the Cairo free zone with a capital of $US 3 million shared equally between the Egyptian company Al-Chark and American International Underwriters Overseas Ltd., a subsidiary of American International Group, which is established in Bermuda. This new company has been authorized to deal in all branches of insurance except life insurance. In practice it will concentrate on marine insurance and operate solely in the free zone.

16. In Papua New Guinea the preparation of regulations designed to modify the structure of the market has systematically benefited local interests. For instance, (a) every insurance enterprise and every intermediary (broker or agent) must be established in the country; (b) all investment by insurers must, up to 40 per cent of net premiums, take place in the country; (c) all insurance must be issued in the country. In addition a national enterprise, Niugini Insurance Corporation, has been established under the Insurance Corporation Act. It is State-owned and intends to begin operations as soon as qualified personnel have been recruited and the establishment formalities are completed. For the time being it will not handle life insurance. Government property and the property of government organs and agencies will be insured exclusively with the new corporation.

17. In Argentina, as long as "existing circumstances prevail", no authorizations will be granted for new enterprises to enter the market, regardless of their legal status (joint stock company, co-operative, etc.) and whether they are public or private. The authorities consider this measure to be justified by the undue proliferation of companies (nearly 300) in a market offering an annual premium turnover of around $US 1,000 million, especially as a majority of these companies account for no more than 20 per cent of the total premiums.

18. In Morocco moves towards "localizing" enterprises have been accompanied by the "moroccanization" of insurance employees. The effect of this is that an increasing percentage of staff are now Moroccans, the present figure being about 95 per cent.

19. In Bolivia the new insurance law 6/ has now been brought into force by decree-law No. 15516, promulgated in June 1978. The emphasis of the law is on protecting the national market and the country's interests in general. This is based on the principle that property in Bolivia and persons resident there are to be insured with enterprises whose activities are under State supervision. The enactment states this explicitly. Insurance companies are prohibited from engaging in unfair competition or concluding agreements which might directly or indirectly constrict or distort the insurance market. The new law thus requires a certain degree of discipline on the part of the enterprises making up the insurance market, with the avowed aim of protecting both the market in general and each of the enterprises operating in it. Applications for authorization to establish new companies will be examined in the light of criteria which include the economic interests of the country, the specific needs of the national market and financial guarantees.

20. As regards the nationality of enterprises allowed to operate on the national market, the new law provides for establishment both by Bolivian companies and by branches of foreign companies. It stipulates that, for an enterprise to be Bolivian, at least 51 per cent of its capital and a corresponding proportion of its administrative, technical, financial and commercial management must be in Bolivian hands. Authorization to establish branches of foreign companies is subject to certain conditions, such as reciprocity for Bolivian enterprises in the parent country. These provisions are far less restrictive than those of Decision No. 24 of the Commission of the Cartagena Agreement, of which Bolivia is a signatory. The Decision prescribes that an enterprise shall not be regarded as a national undertaking unless over 80 per cent of its capital belongs to national investors. The new Bolivian law thus appears to depart from that requirement, probably under another provision of the Decision, to the effect that measures concerning foreign participation may differ from those laid down in the Decision when, in the opinion of the recipient country, special circumstances so require.

21. In Trinidad and Tobago the Government has taken steps to strengthen the national character of the insurance market. A bill under consideration specifies that at least 51 per cent of the shares in an enterprise must be owned by nationals. Furthermore, for life insurance, hitherto handled by large foreign companies, there are fiscal incentives whereby life assurance premiums are deductible from the taxable income of individuals, but only in the case of policies underwritten by insurance enterprises which are domiciled in the country and at least 25 per cent of whose shares are nationally owned. These measures are reported to have had an immediate effect: three large foreign enterprises have set up local subsidiaries and about 80 per cent of all new business is now estimated to be handled by enterprises established in accordance with the Government's aims. This is a significant advance

6/ See document TD/B/C.3/141, para. 22.

compared with the period preceding the introduction of these measures, when the figure was 29 per cent (50 per cent if business underwritten by enterprises domiciled in other Caribbean countries is taken into account). In the same context, the Maritime-INA General Insurance Company has been founded at Port of Spain, with 50 per cent of its capital being held by INA (United States of America). INA International will be responsible for operations and general management, while Maritime Life (Caribbean) will deal with accounts and statistics.

22. In regard to the establishment of new insurance enterprises which do not result directly (or at all) from institutional measures, a distinction may be drawn in regard to the actual nature of the enterprise. There are in fact enterprises which are undeniably local, others which are obviously foreign, and mixed enterprises whose character may make it difficult to determine what interests predominate. To avoid serious errors of classification, this document will simply set out the information available and leave the reader to make his own analysis. The details are as follows:

23. In Ghana a new insurance company was approved by the country's supervisory authority in August 1977. This is a purely local company taking the form of a co-operative (the Ghana Co-operative Mutual Insurance Society); its clientele is drawn mainly from the country's co-operative societies and trade unions.

24. In Fiji the Jardine Matheson Group (United Kingdom), based in Hong Kong, has increased its holding in the Fiji Insurance Company, of Suva, in which it is now the majority shareholder.

25. In Jamaica the business of some United Kingdom companies has been taken over by a local company, the Global Insurance Company of the West Indies, which was a subsidiary of Royal Insurance. This reorganization follows the wish expressed by the Government in December 1978 to place the insurance industry on a local footing. A majority of the shares in the new company will be in the hands of Jamaicans. A similar development is reported with the business of the Sun Alliance & London Insurance Group, which has been taken by the local West Indies Alliance Insurance Company.

26. Two companies have been set up by the Government of Samoa: National Pacific Insurance Ltd., which handles general insurance, and the Samoa Life Assurance Corporation which deals with life insurance. Following this development numerous agencies of foreign companies represented in the country have withdrawn from the market. According to reports, the new companies were set up with the backing of United Kingdom and New Zealand companies which will assist them technically in their initial operations.

27. In Malaysia, through portfolio transfers, several agencies and branches of foreign companies have passed into the hands of Malaysian companies set up for the purpose with mixed national and foreign capital. These changes follow a process of government-supported market localization and facilitation of local participation (bumiputra). In addition, a new insurance and reinsurance company has been founded by Phoenix Assurance Company of London in association with a local bank, Malayan Banking Berhand of Kuala Lumpur.

28. In Guatemala the Insurance Company of North America (INA Corp.) has acquired what it calls a "major interest" in the local Cruz Azul company, one of the biggest in the country. It will be recalled that only national enterprises are allowed to operate in Guatemala, i.e., those which have their headquarters in the country and are established under Guatemalan law.

29. In Brazil several foreign insurers ready to offer insurance services and advice to local industrial enterprises co-operating with economic interests in their own home countries have set up close links or even forms of association with Brazilian banks and insurers. Among these foreign insurers are Gerling Konzern of the Federal Republic of Germany (there are more than 1,000 industrial projects in Brazil involving Federal German participation) and Skandia of Stockholm, which has bought up 25 per cent of the shares in Boavista, one of the most important insurance groups in the country, with its headquarters at São Paulo. In the same context, it should be mentioned that Companhia Internacional de Seguros has signed a co-operation agreement with the Swiss group Zurich Versicherungs-Gesellschaft. Another Swiss company, Winterthur, has set up a joint subsidiary (Itaú Winterthur Seguradora) in which a local company (Itaú, São Paulo) participates.

30. In order to widen its potential for operating in Brazil, the Hartford Insurance Group (United States of America) has acquired 20 per cent of the shares in the local Companhia Renascença de Seguros, a member of the important Brazilian group Sul-America do Brasil. With the same motive, one of the country's leading banking groups has bought shares in a subsidiary of a United Kingdom insurance group, Yorkshire Corcovado Companhia de Seguros, which is associated with General Accident. Also, Nordstern Allgemeine-Versicherung has acquired a 50 per cent stake, shared with another Federal German company, in Parana Companhia de Seguros Germano Brasileira of Curitiba. The announcement of this in the press stated that, since this company has bank shareholders, its customers will also enjoy credit services, and that such a link between insurance and banking is typical of the Brazilian market 7/. In regard to broking, it is interesting to note that two British brokers, Bland Payne Holdings Limited and Stewart Wrightson, have established links with two Brazilian commercial banks in order to broaden their base of action in Latin America.

31. In Singapore the United Asia Reinsurance Corporation has been set up by three Asian companies based in Singapore and Hong Kong (with 40 per cent of the shares). Continental of New York (with 20 per cent), Ennia N.V. of Amsterdam (with 15 per cent), Prudential Assurance Co. Ltd. of London (with 10 per cent) and La Préservatrice of Paris, Chiyoda Fire and Marine Co. of Tokyo and New India Insurance Co. of Bombay (with 5 per cent each).

32. In Venezuela a new law under which non-resident foreigners may no longer operate insurance broking firms has led several United States enterprises to sell all or some of their Venezuelan subsidiaries or branches. A cording to the trade press, 8/ Marsh & McLennan (USA) has sold its subsidiary March & McLennan de Venezuela to the Lansberg Group, whose broking activities will be carried on by a subsidiary, Suguros C.A. de Corretaje. However, Marsh & McLennan has purchased a certain proportion of the shares in Suguros C.A. and has done another similar transaction through its subsidiary Guy Carpenter & Co. Inc., which has bought 20 per cent of the shares in Cover C.A. and Cover International, reinsurance brokers operating in Venezuela and at Curaçao.

7/ Versicherungswirtschaft, 15 September 1978, quoted in La Réassurance, Paris, January-February 1979.

8/ Financial Times World Insurance Report, London, 9 September 1977.

33. In Panama the Insurance Company of North America (INA Corp.) has announced its intention of establishing itself in the country in order to have a base for operations in South America and the Caribbean.

34. In the Sudan a specific "working relationship" has been set up between American International Underwriters (United States of America) and the Sudanese Insurance and Reinsurance Company (SUDINRECO) of Khartoum. The particular interest of this item of news is explained in the trade press as follows: "SUDINRECO will be able to issue policies on international risks in that area". 9/

35. In Oman a private undertaking was set up in 1977 and began operations in 1978. Press reports make a point of emphasizing that this is one of the few insurance enterprises in the Persian Gulf area which has no links with international insurers or brokers. It is evidently a purely national enterprise and has announced its intention of extending its operations to neighbouring countries.

36. A considerable upsurge of interest on the part of foreign underwriters and brokers is reported from various other Gulf countries, but its true extent is difficult to judge. The following enumeration does not claim to be exhaustive and may simply represent the tip of a huge iceberg. Furthermore, the territorial limits of the operations covered by the developments in question must be viewed with caution. In this part of the world, the fact that an enterprise is established in a particular country does not necessarily mean that it will operate there. In the insurance field, a certain flexibility as regards frontiers seems an accepted principle. This applies especially to Saudi Arabia, where the establishment of insurance firms is prohibited and risks are actually insured by companies nominally registered in a neighbouring country or elsewhere.

37. In Bahrain the AFIA Worldwide Insurance Group of New York has linked up with a local company. The organization thus created intends to underwrite business in all the Persian Gulf countries; this will be in addition to the expanding business already being handled through local agencies, for instance in Dubai, Abu Dhabi and Oman. It will be recalled that AFIA is an organization which underwrites business abroad for its owners (10 of the major insurance companies in the United States of America). Also in Bahrain, National Insurance Services was established in October 1977. Although it belongs to local trading and financing firms, its technical and administrative management is in the hands of Sedgwick Forbes (Middle East), a subsidiary of the Sedgwick Forbes broking and underwriting group of London. Apart from its traditional links with the London market, Sedgwick Forbes (Middle East) acts as underwriting agent for the "Zurich" company and for Reliance Insurance Companies of Philadelphia.

38. The Hogg Robinson Group, London brokers, and the Prudential Assurance Company, also of London, in association with a consortium of Arab interests, have founded the Saudia International Insurance Company, domiciled in Bahrain but on an "off-shore" basis, i.e. the company cannot operate in Bahrain. Agencies would seem to be the company's real operating centres and have been established in Saudi Arabia. Apparently another enterprise of the same kind (with its headquarters in Bahrain but formed to operate in Saudi Arabia) has been so successful that an issue of new shares for 2.5 million Bahrain dinars was oversubscribed by 300 to 350 times the nominal amount only five days after the subscription list was opened. The enterprise concerned is Gulf Union Insurance Company. Faced with the possibility of what may be speculative manoeuvres rather than genuine interest in participating in insurance business, the Government of Bahrain is believed to be considering imposing certain controls.

9/ Post Magazine and Insurance Monitor, London, 5 April 1979.

39. With <u>Saudi Arabia</u> again as its target, Abdallah Wigham Poland is a new joint venture mounted by the Wigham Poland Group of London and the Abdallah Establishment for Trade and Industry. The insurance press has also circulated widely the news of the formation of Al Sagr Insurance Company of Saudi Arabia, involving on the one hand six leading Saudi Arabian business men and on the other the Hong Kong Reinsurance and General Insurance Co. (a member of the Inchcape Group). The New Zealand Insurance Company, another associate of the new company, has been entrusted with the latter's management.

40. Continental Corporation (United States of America) has taken a 20 per cent interest in Al Jazira Insurance Company, registered in Bermuda but with its operational base in Jiddah. Its object is to underwrite Saudi Arabian business only. Among the other shareholders is Near East Agencies, which acts as agent for various United Kingdom, United States and French companies and owns 20 per cent of Al Jazira's shares. This represents further expansion by a major United States insurance group which has frequently acquired holdings and minority interests in developing countries and has also participated in joint ventures (10 per cent of the shares of Asia Insurance Company, Hong Kong; United Continental Insurance Company, a joint venture in Malaysia; and United Asia Reinsurance Corporation in Singapore).

41. Lastly, Federal Insurance Company of New Jersey, Aachener und Münchener Versicherungs-Aktiengesellschaft, Assurances Générales, of France, and United Commercial Holding, of the United States, have joined together to set up Al Saudia, a company registered in Luxembourg with a capital of $US 4 million, one quarter of which is paid up. The formation of Pan Arabian Insurance Company Ltd. to serve the local and foreign market is also reported. This new company has been set up jointly with General Accident, The Insurance Company of North America and a local commercial firm. Saudi Arabia is also the country in which operations have been begun by Al-Alamiya Insurance Company, which has its headquarters in the United Kingdom and is closely controlled by Sun Alliance London Assurance.

42. The influx of insurance broking firms from the London market into Dubai to set up establishments or agencies there has continued. The most recent example seems to be Willis, Faber and Dumas Ltd., one of the biggest firms on the world market, which has joined forces with a businessman in this area to set up an insurance and reinsurance company which will also operate in neighbouring countries. The new company is called Al-Futtaim, Willis, Faber, Ltd. According to the trade press, the attraction of Dubai for these big companies lies in its huge development potential, its harbour facilities, above the average for this part of the world, and the absence of any special insurance legislation. There are now 40 companies in Dubai, 9 of them of United Kingdom origin. 10/ This proportion is likely to increase as a result of negotiations with the Government with a view to larger participation by Lloyd's of London underwriters in the local market.

43. Equally intense efforts to penetrate markets have been made by companies of other western European countries. Union des Assurances de Paris, for instance, has acquired a holding in a local company (Arabian Security Insurance Co. Ltd.) through a subsidiary reinsurance firm (Corefi). This follows the establishment by that company of an agency in <u>Abu Dhabi</u> and strengthens the company's base in the whole of the Persian Gulf area.

10/ <u>Financial Times World Insurance Report</u>, London, 20 May 1977.

Chapter II. Measures to expand and diversify business written on local markets

44. It is generally acknowledged that most of the insurance markets of developing countries have too small a turnover, and that this prevents them from consolidating their activities and acquiring any degree of maturity. Legislative measures taken by the authorities concerned often aim at remedying this situation. The main need is to feed the national insurance market with sufficient business to enable it to develop properly, by eliminating as far as possible the direct underwriting of national risks abroad by insurance firms not established in the country; after that it is a question of encouraging the public to take out more insurance by means of attractive offers of cover, compulsory insurance, etc.

45. As far as the sale of insurance to nationals by unauthorized insurance firms is concerned, the situation in some regions remains disturbing. The purchase of insurance directly abroad certainly has a detrimental effect on the premium income of the national market. It has other drawbacks too, such as tax fraud opportunities, loss of investment and lack of security, as well as the problems which unfair competition creates for those firms which are properly authorized to operate on the national market and, unlike the others, are subject to specific local regulations governing tax, finance, accountancy, trading and so on.

46. In several countries, efforts to involve the national market covering local risks have concentrated on transport insurance for imports. It may be recalled in this connexion that UNCTAD resolution 42 (III) urged that the domestic insurance markets of developing countries should cover the risks generated by the economic activities of the countries concerned, including their foreign trade. On the basis of this initial text, a second resolution (9 (VII)), adopted by the Committee on Invisibles and Financing related to Trade in November 1975, recommended that developing countries should adopt "such measures as are suggested in the study [on marine cargo insurance submitted to the Committee by the UNCTAD secretariat] as may be appropriate in their individual circumstances". The measures in question were designed specifically to ensure that imports were insured on the local markets of developing countries wherever that was technically possible. The representatives of the developed countries, in accepting this resolution, "agreed that restrictive measures in developing countries could be justified for a limited period of time, until the domestic insurance market had had time to build up and was in a position to compete on an equal footing with insurers in developed countries". 11/

47. In accordance with this strategy, the Government of Nigeria has decided that all goods imported into the country must be insured with firms licensed in Nigeria and that all letters of credit or similar documents issued by banks or credit institutions with regard to such goods are to be on a C & F basis only. It has been pointed out that the beneficial effects of these measures will not be felt in full until the chronic bottlenecks at ports of entry have been overcome. Reports show that congestion in recent years continues to involve considerable losses, and that if this situation does not improve, firms operating on the national market may face substantial difficulties. However, the more active involvement of Nigerian

---

11/ See TD/B/590, para. 128.

underwriters in transport insurance may, through co-ordinated efforts on the part of insurers and port authorities, lead to vessels being loaded and discharged more efficiently, as well as to various measures of control. Steps of this kind would definitely reduce losses and enable local insurance firms to operate more satisfactorily.

48. In the People's Republic of the Congo a government order which took effect in November 1977 makes it obligatory for all imported goods to be insured with the National Insurance Corporation.

49. In Tunisia the Government has asked public enterprises which negotiate on foreign markets to ensure that the contracts which they conclude with their foreign partners provide for 50 per cent of the goods carried under the contract to be insured with Tunisian companies.

50. In the United Republic of Cameroon regulations have been introduced to strengthen the legislation on local insurance cover for imports and construction risks.

51. In Syria the legislation on compulsory local insurance of imports has been supplemented by more stringent conditions concerning the choice of the vessels on which import cargo is to be carried. The vessels concerned must offer certain guarantees, particularly of seaworthiness, and will therefore entail fewer risks for cargo and underwriters. The provisions in question stipulate that chartered vessels shall be not more than 15 years old and liner vessels not more than 20 years old.

52. In Chad goods must be insured on the local market if the person taking out the insurance is resident within the meaning of the General Taxation Code.

53. It is thus generally apparent that many developing countries are making greater efforts to reserve the insurance of their imports for the national market. Some 30 developing countries at present employ this strategy, but recently it seems to have been questioned in certain developed countries which are major exporters of manufactures. The American Institute of Marine Underwriters, for instance, has complained to the United States Government about what it describes as exorbitant obstacles and restrictions to United States trade. Although this complaint is not directed specifically against developing countries (the main target seems to be the European partners of the United States, both Western and Eastern), it may turn out to have global repercussions.

54. Other developed countries pursue a different course: while recognizing that local insurance of imports is a justifiable strategy, they seek dispensations in favour of their own underwriters when granting developing countries soft-term finance or preferential credits. In regard to France, for example, it has been stated that "insurance connected with the performance of contracts which involve preferential credits granted by France should be underwritten on the French market. The Department of Insurance and the Department of the Treasury have worked out a

clause for insertion in financial protocols or financial implementing conventions concluded with countries which receive credits of this kind. The clause provides that contracts financed under the protocol in question are to be invoiced at the FOB price, but that if the insurance is handled by a French company it may be financed through Treasury loans or guaranteed private credits. This clause appears in the financial protocols concluded with nearly all the countries which negotiated preferential credit agreements with France in 1975, including Bangladesh, Morocco, Brazil, Syria etc.". 12/

55. Some developing countries have resorted to different measures from those described above by seeking to open their markets to new forms of insurance transaction either involving cover for risks previously insurable only abroad, because the cover was not available locally, or representing new needs. Several countries have studied not only the question of catastrophe cover, and particularly earthquake cover, which will be dealt with at the end of this chapter, but also other forms of insurance likely to meet the genuine needs of the population and at the same time help the national insurance market to expand its turnover. Details on this subject are given below.

56. In at least two countries (Argentina and Brazil) "protection and indemnity" insurance, which basically covers certain hull risks and shipowners' third party liability, is now placed on the national market through specialized insurance firms. Previously this insurance was mainly provided by mutual associations operating in the world's major insurance and shipping centres.

57. In India there has been noticeable progress with cattle insurance. National companies are now examining the possibility of issuing a comprehensive policy which would cover all farmers' property against miscellaneous risks at a very low premium within the farmer's means.

58. In Thailand, where the Government has introduced a special form of insurance for cotton growers, it has been decided to extend the cover to other crops of particular interest. Private insurance firms will probably be involved in this scheme.

59. In the United Republic of Cameroon occupational accident and occupational disease risks, hitherto handled by private firms, have been transferred to the National Social Welfare Institution, which is the country's social security agency.

60. In Malaysia an institution to cover export credit risks has been set up by insurance firms and banks associated with State interests.

61. In the Philippines, the Philippine Crop Insurance Corporation was established in 1978. Its object is to cover agricultural risks of natural origin and agricultural diseases. For the time being cover is confined to rice-growing; it is compulsory for farmers who benefit from State-supervised credit programmes and optional for other farmers, but in the latter case it is subject to inspection of existing plantations, which is undertaken by government experts. Cover will not extend to losses that were avoidable or due to negligence, bad faith or fraud on the part of the policy-holder or members of his immediate circle.

12/ L'Argus, Paris, 9 April 1976.

62. The need to widen the field for national insurance activities by adapting them to the specific requirements of developing countries is frequently thwarted by the fact that technical results are not predictable enough and that losses may reach serious proportions. Consequently, the process of expansion often has to be accompanied by measures to limit or prevent losses. Many countries are taking determined steps to deal with loss prevention, in particular in connexion with fire and marine insurance. Details of new developments in regard to loss prevention are as follows:

63. In many Gulf ports, the customary bottlenecks have eased because of restrictions on the time for which goods can be warehoused. At Port Rashid, in Dubai, the free warehousing period has been reduced from 20 days to 10 and the customs authorities auction goods left uncollected after six months (instead of one year). At the same time, the measures which continue to be adopted to improve facilities and capacity at the ports in question, should solve the problem of the excessive losses suffered hitherto.

64. Special prevention measures have also been taken in Venezuela, where insurance firms are now required by presidential decree to grant rebates of up to 40 per cent of the tariff premium to policy-holders who have complied satisfactorily with the special directives concerning fire prevention and protection of buildings. These directives also lay down conditions to be met by risk surveyors. According to reports, particular attention is being directed to loss prevention in connexion with earthquake risks, especially in the area comprising the Venezuelan capital, where insurers face aggregate risks of some 42 billion bolivars.

65. In India the country's underwriters have set up an autonomous body, the Loss Prevention Association of India, whose principal objects are to prevent and minimize losses. The information available points to highly satisfactory results in this field, due to information campaigns directed not only at the general public but above all at the various bodies directly concerned. Agencies of the Cargo Loss Minimization Department have also been opened in some Indian ports. A seminar on loss prevention involving 200 participants was held at Bombay in 1977.

66. In Morocco the National Road Accident Prevention Committee has been set up to reduce the frequency and seriousness of accidents and thereby help to overcome one of the major obstacles to the expansion of the country's insurance industry. The objects of the Committee are: (a) to study and propose measures of all kinds to reduce the number of road accidents; (b) to participate in educating the public; and (c) to make material available to departments responsible for road safety. Various ministries and private circles dealing with prevention questions are represented on the Committee. The Committee's resources come mainly from a levy on motor insurance premiums and from budgetary subsidies. 13/

67. In the sphere of natural catastrophe risks, and particularly earthquake risks, an important meeting was convened by UNESCO in collaboration with FIDES and the Autonomous National University of Mexico at Cocoyoc in Mexico in December 1978. The purpose of the meeting was to bring together seismologists and insurance experts with a view to a broad discussion of economic losses caused by earthquakes and an analysis of the role of insurers in protecting victims. The problem for insurers is to assess the potential loss, which is a prerequisite for fixing adequate premium rates. An additional problem is to determine how much the probable and possible losses will amount to over a given period, in order to arrive at an estimate of the

---

13/ See UNCTAD document TD/B/C.3/162, on loss prevention.

total risks which insurers are obliged to reinsure. These calculations necessitate an estimate of probable seismic intensity and its effect on damage to insured buildings and their contents.

68. Other aspects of insurance against major catastrophes, particularly earthquakes, concern the actual structure of the insurance markets in those developing countries which are most exposed to losses of this kind. The question here is whether these markets are organized in such a way that they can offer the necessary safeguards without becoming excessively dependent on the world reinsurance market, which is very reluctant to accept risks of this sort. The expert meeting mentioned above found no conclusive answer to this question but decided that existing research should continue.

69. In addition, the meeting recognized that an enormous amount of potential business remains to be tapped (statements were made to the effect that property insured against earthquakes does not on average exceed 5 to 7 per cent of the total property liable to destruction in developing countries). This could partly be due to insurers' very limited capacity for absorbing risks by comparison with the potential magnitude of disasters caused by seismic phenomena. Possible solutions seem to call, as a matter of priority, for greater co-operation among developing countries exposed to risks of this kind, the negotiation of terms for spreading these risks at world level, and the involvement in this process of hitherto underexplored sources of cover.

70. At an international seminar of insurers dealing with a closely related subject, held a few months later at Manila in the Philippines, it was suggested that the United Nations should be entrusted with the management of an international pool to handle the risks in question. This proposal applied to natural catastrophes as a whole and not only to earthquakes, but the attention of insurers was concentrated on the latter. Emphasis was placed once again on the present unsatisfactory spread of premiums and losses geographically.

Chapter III. Measures concerning the solvency and technical and financial management of insurance enterprises

71. As in the past, the Governments of some countries are making a special effort to rationalize and strengthen the national insurance market through legislation on the activities of enterprises and the conditions under which they operate. The comments on this subject in the document covering the period 1975-1976 (TD/B/C.3/141, para.16) apply to the period 1977-1979 as well. Strengthening of the financial and technical capacity of enterprises, protection of policy-holders and wider powers for supervisory authorities are some of the measures involved; in certain cases they have necessitated a complete overhaul of the legislation governing supervision of the national market. This is the case in Bolivia, for example. In other countries, amendments to certain parts of the existing legislation in order to adapt it to continually changing situations and problems have sufficed.

72. Legislative activity has continued to centre on the question of the calculation and creation of technical reserves and the investment of insurance funds. Changes in existing legislation also reflect the desire of supervisory authorities that insurance funds should simultaneously protect policy-holders and make available to the national economy the savings generated by insurance. In this connexion, there is a tendency towards new legislation that requires investments to be more widely diversified. This is not only a safety factor in itself but should also help to stimulate the economy.

73. As mentioned above, a new insurance law was enacted in Bolivia in June 1978. Financial safeguards are the subject of special measures; the law prescribes that a ratio of at least 15 per cent must exist between the aggregate of capital and capital reserves (minima for which are to be established in the implementing regulations to the law) on the one hand and production (net premiums) on the other. As regards the financial safeguards represented by technical reserves and their investment, the new legislation does not differ in essentials from what is in force in many other countries, but special rules apply to provision for unexpired finance risks. Other financial topics dealt with in the new law include outstanding premiums; in some countries this item reaches considerable proportions and premium arrears are so widespread as to cause major difficulties and affect the financial stability of enterprises. The new law provides: (a) that outstanding premiums shall not be treated as assets and placed to the technical reserve; (b) that the time-limit for payment, to be prescribed later by regulation, shall not in any circumstances exceed 180 days; and (c) that outstanding premiums shall not exceed 25 per cent of annual production. Any excess must be covered by an appropriate reserve shown in the balance sheet as a liability. This is probably intended to discourage insurers from using premium payment periods as a commercial means (practised all too widely) of making their product more attractive to customers.

74. The new law also provides for certain technical means of ensuring the financial stability of enterprises. It stipulates in this respect that their total retentions (i.e., the proportion of each risk that remains with the enterprise after deduction of the amount which is reinsured shall be between 1 per cent and 10 per cent of the aggregate of their paid-up capital and capital reserves. Part of the amount reinsured (the minimum will be laid down by the government) must be ceded to the national market. Also, the insurance supervisory authority may take steps to prevent overretention by enterprises, which might jeopardize their instability, or under-retention, which would simply make them intermediaries for reinsurers. This procedure ensures that underwriters discharge their proper function in covering risks but without their financial results being affected too unfavourably.

75. Other questions which the law deals with in regard to operation of enterprises and supervision of intermediaries include "the objects and functions of the supervisory authority" ("Fines y atribuciones de la Superintendencia"). The authority is established as a public body which enjoys independent legal personality and administrative autonomy and is responsible for supervising, regulating and inspecting insurance and reinsurance enterprises, intermediaries, auxiliaries and insurance transactions taking place in Bolivian territory. The authority is placed under the control of the Ministry of Finance.

76. In Oman a law on insurance companies was enacted in March 1979. The conditions now required for doing business as an underwriter include a minimum capital and a minimum deposit for national enterprises, and a deposit of 150,000 or 300,000 rials for foreign companies wishing to handle one or more classes of insurance respectively. In addition, foreign enterprises must reinsure at least 15 per cent of their business with one or more national companies.

77. In Papua New Guinea the question has arisen of regulations which would amend the 1974 Insurance Act so as to provide: (1) that the principal officer of an insurance enterprise has a power of attorney authorizing him to act on behalf of the underwriter or broker employing him; (2) that the underwriter or the broker has a principal office in the country; (3) that all investable funds are placed locally - in the case of insurance enterprises, the sums invested may not be less than 40 per cent of the net premium income; (4) that original documents and records required for the preparation of statutory accounts and reports are kept in the country; and (5) that all policies are henceforth issued locally. On the other hand, there is no question yet of extending insurance legislation and supervision to life enterprises and life transactions. The press has recently pointed to the evident gaps in the law. 14/

78. Also in Papua New Guinea, there have been new provisions regarding the activities of insurance intermediaries. Every intermediary must now have an establishment in the country.

79. In Malaysia the insurance law has undergone some important changes. In the first place, all insurance firms (with the exception of life enterprises) must maintain a solvency margin of 15 per cent of the premiums underwritten the previous year, but of not less than 1 million Malaysian dollars. This condition is to operate from 1979 onwards. The Government hopes in this way to be able to consolidate the market; small enterprises which cannot find the necessary additional capital will be obliged to merge with larger ones. The result may be fewer enterprises, which in turn would lead to a more satisfactory development of the national market. Furthermore, the insurance supervision department has been strengthened in order to keep a stricter watch on the financial situation of enterprises; it has discouraged them from investing in speculative assets such as investments on behalf of subsidiaries or in companies in which particular directors or managers have an interest. The same applies as regards unsecured loans. Moreover, from December 1978 onwards, the share of investments to be made in federal bonds has been fixed at 21 per cent and is to be increased by 1 per cent per annum, rising to 25 per cent in 1982. The efforts of the national authorities

---

14/ Best's Review, January 1979.

to ensure the solvency of enterprises have extended to the solvency of the national market as a whole. Thus a guarantee fund has been set up in order to cover payment of up to 90 per cent of claims to policy-holders whose insurance company has gone bankrupt. Insurance enterprises will contribute 1 per cent of their income to the fund.

80. With regard to compulsory provision for certain special risks, Guatemala requires net reserves, less reinsurance, to be created for earthquake insurance. These reserves must be added to those from preceding years, without any limit as to amount. This means that they will not be treated in the normal manner whereby technical reserves in existence at the end of a given financial year are withdrawn at the end of the subsequent financial year and replaced by new commitments calculated at the time the balance sheet is drawn up. Without doubt this is because earthquake risks are considered to have a periodicity which prevents a single financial year from being used as a satisfactory basis for judging results. A further stipulation is that the cumulative reserve may only be used for settling the claims for which it has been set up and not until use has been made of all indemnities paid under current reinsurances.

81. In the Philippines several amendments were made to the Insurance Code in 1978, mainly as regards the internal organization of local insurance companies. For example, no one may be a director or manager of an insurance company and of an adjustment firm at the same time. Also, insurance companies may not hold shares in adjustment firms nor may the latter hold shares in insurance companies. Other measures, dealt with in a separate chapter, concern minimum capital, deposits and the intervention of the supervisory authority when enterprises are liquidated.

82. The facts mentioned above have been accompanied by changes in a few countries in regard to the conditions to be met by persons entitled to compensation under third party motor insurance. For instance, the no-fault system now operates in the Philippines; up to a certain figure, claims are paid without there being any need to establish whether the policy-holder was liable for the accident. This system does not, however, apply to death or bodily injury. This is a compulsory form of insurance and has been entrusted to a pool of insurance companies.

83. Without listing all the countries in which changes in the required amount of capital have taken place, mention should nevertheless be made of the Philippines because of the importance of the change involved; the minimum paid-up capital is to rise from 2 million to 5 million pesos. In addition, the Government is authorized to order further increases in order to ensure that the minimum capital "would reasonably assure the safety of the interest of the policy-holders and the public". Increases in cash assets and statutory deposits have also been prescribed for mutual associations and companies respectively in order to bring them into line with the new conditions imposed on local joint stock companies. Reinsurance enterprises must also raise their paid-up capital, from 5 million to 10 million pesos. The capital investment deposit, consisting of State bonds which must be lodged with the supervisory authority, has been reduced in relative terms (from 50 to 25 per cent of the minimum capital) but increased in absolute terms because of the increase in capital mentioned above.

84. In some countries the supervisory authority is intervening more decisively when the financial situation of an enterprise gives cause for anxiety. This is particularly so in the Philippines, where an amendment to the existing legislation stipulates that the supervisory authority is empowered to prepare a scheme of liquidation immediately an enterprise is in difficulties, and that the scheme will take effect from the date of its approval; the idea is to prevent the liquidation procedure from being hampered by tedious and protracted court litigation. The decision of the supervisory authority is final and executory. The company affected may nevertheless apply to the court for the decision to be stayed, but it will then have to show convincing proof that the decision was arbitrary and taken in bad faith.

85. In Chad legislation enacted in 1977 on the organization of the country's insurance industry provides in particular for the compulsory constitution by insurance enterprises of a guarantee reserve of not less than 20 per cent of their capital. This reserve ceases to be compulsory when the aggregate of the reserve and the paid-up capital reaches a certain percentage (to be determined by the Minister of Finance) of the average amount of claims, settled or outstanding, in the preceding five financial years. In addition, the capital of an enterprise must be 100 million francs CFA instead of the 80 million previously stipulated. The new legislation also requires insurance enterprises to attach to their licence application a schedule of their main investment proposals for the succeeding five years. The legislation prescribes the method of constituting and investing technical reserves, particularly for unexpired risks and outstanding claims. The gross amount of these reserves (without deduction of reserves relating to ceded reinsurance) must be invested in Chad.

86. In Thailand the insurance law was amended in 1977. The main changes relate to the method of calculating enterprises' technical reserves or provision, investment by enterprises and licensing of insurance agents and brokers. They also include the introduction of a code of conduct, which should expedite claims settlement, as well as revised methods for evaluating the assets and liabilities of supervised enterprises. Among other things, the new methods should facilitate assessments of the growth of insurance enterprises and its comparison with overall national economic development. The solvency margin of enterprises was also increased in 1978. Finally, the structure of the government agency for supervising enterprises was modified, the former insurance office attached to the office of the Under-Secretary, Ministry of Commerce, being replaced by a separate department of the Ministry of Commerce headed by a Director-General.

87. Also in Thailand, it is now compulsory either to take out third party insurance for motor vehicles or to deposit a specified sum with the supervisory authority as security for any payment of compensation. The regulations on investment have been amended to enable insurance enterprises to diversify their assets. The supervisory authority has issued new rules for calculating unearned premium reserve, based on what is called the "1/24th" method; this is more detailed than the one normally used, which is based on a fixed percentage of annual premiums.

88. In Trinidad and Tobago the Government is preparing a new law aimed in particular at: (a) increasing enterprises' own funds to permit higher retention capacity and improve solvency; (b) introducing the principle of prior licensing of insurance intermediaries (in future they must have a suitable degree of technical knowledge); (c) extending the powers of the supervisory authority to enable it to intervene in the conduct of business by enterprises whenever their situation warrants and before it becomes critical; (d) reviewing the investment policy of enterprises (by allowing them greater flexibility of investment without prejudice to the security of policy-holders and by controlling investment in subsidiaries and associates); and (e) making it compulsory for enterprises to submit accounts to the supervisory authority reflecting their annual position both financially and technically (gross premiums, ceded and accepted reinsurance, categories of investment, etc.). The new law will also establish the conditions of ownership of enterprises, 51 per cent of whose shares will have to be in local hands.

89. In Argentina the supervisory authorities have studied the problem of premium arrears, which in many other countries seriously hamper market development. Under the existing rules the insured has 45 days in which to pay the premium after the issue of the policy or, if he elects deferred payment, he may pay within five months free of interest. In practice this time-limit is extended further, so that the insurer is not paid a large part of the premiums until the second half of the annual period of cover. In a country like Argentina, where annual inflation exceeds 50 per cent, the consequences of these delays for enterprises are serious and distort fair market competition. Solutions to this problem are being sought in particular through the banks. Thus, in line with the decision taken in Brazil, it is proposed that policies should not take effect until the premium has been deposited with an Argentinian bank. Policy-holders wishing to defer payment of premiums would then have no alternative than to seek a loan from the bank concerned and pay interest on it.

90. Also in Argentina, following a decision of the supervisory authorities, tariffs have been cut, in some cases drastically: 50 per cent for fire insurance and 15 per cent for transport insurance. The authorities consider that these reductions (which have been approved by the National Reinsurance Institute) are unlikely to affect the solvency of enterprises and that they will encourage underwriting of new business on the national market. Also, a new régime for investment of reserves and constitution of deposits entered into force in August 1977; it provides inter alia for insurance enterprises to invest at least 20 per cent of their reserves for non-material losses in indexed mortgage certificates.

91. In Afghanistan legislation is to be enacted in the near future providing for compulsory insurance of third party motor risks and transport of government-imports, but not of goods imported under grants or imported by private entities and financed by letters of credit. The fire insurance of State-owned buildings and all industrial enterprises will also be compulsory.

92. In Egypt a new building law requires that contractors shall hold an all-risks insurance policy providing cover for a period extending from the time of demolition and construction until the end of the execution stage or the expiry of the guarantee (10 years after execution). This applies to all building operations of 10,000 Egyptian pounds or more in value. The building permit will not be issued unless this condition has been met. The Egyptian Reinsurance Company manages the pool formed for the underwriting of this insurance. A similar insurance obligation applies to third party liability arising from loss or damage attributable to use of lifts.

93. In Morocco the entire motor vehicle insurance system has been reorganized on the following basis: (a) merit rating: rating will depend not only on the use and power of the vehicle but also on the age of the driver, how long he has had his driving licence, his previous accident record and the age of the vehicle: (b) penalization of bad drivers: the premium increase can be up to 100 per cent of the basis premium; drivers who have not caused an accident will receive a rebate of up to 30 per cent of the basic premium; (c) adaptation of tariffs to cost-of-living increases and the price of spare parts: the 1973 tariff has been increased by 30 per cent to take account of rises in this respect; (d) other accident prevention measures, including the wearing of a safety belt. Mention may also be made of the fact that some countries (including Morocco), have revised their requirements for the accounts that enterprises must submit to supervisory authorities. The aim is to achieve greater transparency of enterprises' assets and commitments. In Morocco it is explained that the new requirements are based directly on the recommendations of UNCTAD (resolution 42(III)) with regard to insurance statistics and the need to harmonize them at the international level (United Nations publication, Sales number E.72.II.D.9).

94. In Tunisia a new law relating to the Tax Code allows sums placed by insurance companies to technical reserves to be deducted from taxable profits, provided the reserves are calculated in conformity with the insurance legislation and are duly represented on the assets side of the balance sheet by figures approved by the Minister of Finance. The representation of guarantee deposits and technical commitments of insurance enterprises is governed by an order of the Minister of Finance of 21 August 1979 introducing certain innovations by comparison with the old 1959 text, for instance as regards the deposit of securities for guarantee purposes and the representation of technical commitments.

95. The increases in capital required by the supervisory authorities of some countries have a very direct impact on concentration of enterprises and market consolidation. One of the most striking examples is Brazil, where a substantial increase in minimum capital has been imposed. The minimum capital has risen from 7.5 million cruzeiros (roughly $US 433,000) to 30 million cruzeiros (or 20 million cruzeiros for enterprises whose activities extend to the provinces). It has been reported that, as a result, 40 of the 96 insurance enterprises operating on the market will not fulfil the necessary conditions and will be obliged either to withdraw from the market or merge with other enterprises. The new requirements are accompanied by the obligation to constitute reserves for unexpired risks on a basis of 40 per cent (not 30 per cent) of premiums written.

96. In Guatemala the supervisory authorities have tabled a bill aimed in the first place at regulating the bankruptcy of insurance enterprises, and in the second at providing a procedure for administrative and judicial liquidation which would involve the supervisory authority and be more flexible than the procedure under the general provisions of the Code of Civil and Commercial Procedure.

97. In Colombia reserves for unexpired transport risks will henceforth be calculated on a basis of 40 per cent of the net premiums for the second half-year. Enterprises are also authorized to establish a special reserve for this class of insurance, varying from 20 to 40 per cent of the net premiums for the second half-year, by way of provision for accidents attributable to natural catastrophes and for incurred but non-reported claims. The advantage of these measures for enterprises is obvious in view of the fact that the reserves thus constituted are deducted from book profits and hence from tax.

PART TWO: DEVELOPMENTS IN REINSURANCE

Chapter I. Reinsurance measures, with particular reference to measures to increase retention by local markets

98. A number of the measures described in part I of this document appreciably affect the retention capacity of the countries adopting them and lessen their dependence on foreign reinsurance. This is particularly true of measures relating to restructuring of markets, market concentration, increased turnover and greater solvency of enterprises. As indicated in the UNCTAD study entitled "Reinsurance problems in developing countries", 15/ all such measures are aimed at strengthening enterprises operating on the market and at eliminating the weakest among them, namely those which cannot shoulder the normal risks arising from their activities.

99. Some of the measures described in the preceding chapter may, on the other hand, lead to an increase in cessions of reinsurance to foreign countries and hence to the more active intervention of foreign reinsurers in national business. This is the case, for example, with measures aimed at the broader participation of the national market in the coverage of certain national risks, in particular major risks and marine risks. Obviously, if the national market henceforth deals locally with cases which were previously covered abroad, the volume of direct premiums will increase, but the volume of foreign reinsurance may also increase. The value of the measures in question nevertheless lies in the fact that the former increase should normally be larger than the latter. In any event special mechanisms need to be established. Most of the following paragraphs are intended to highlight mechanisms of this type which have been established during the period under consideration.

100. In Morocco the retention of a large number of risks which were formerly reinsured abroad has increased considerably through the operation, in Casablanca, of the "Bourse d'assurances" (insurance exchange), to which all major national risks are submitted. These risks concern the fire, engineering and marine branches in particular. The exchange distributes business in these branches to Moroccan companies in proportion to declared underwriting capacity.

101. In Chad the following operations are subject to the prior authorization of the Ministry of Finance: (a) any co-insurance operation conducted with foreign companies, authorization being given only if the local company which has issued the policy gives evidence that insufficient capacity exists on the national market; (b) any reinsurance arrangement entered into with a foreign company which gives rise to the cession of premiums in excess of 50 per cent of the initial premiums underwritten in Chad. The purpose is to ensure that the local market is involved on a priority basis and that foreign reinsurance is used only for risks exceeding the capacity of the enterprises existing on the national market.

102. In the Philippines the presidential decree of December 1977 establishing the National Reinsurance Corporation of the Philippines (to which reference will be made later) invites national insurance enterprises to place 10 per cent of

---

15/ Document TD/B/C.3/106/Rev.1.

their reinsurance treaties with the new institution. In addition, in November 1977 a circular issued by the supervisory authorites called on all insurance enterprises to increase their retention capacity and to give preference in their dealings to reinsurers operating in the Philippines, unless they can show that other reinsurers cede to them, on a reciprocal basis, an equivalent share of their own reinsurance business (retrocessions). This equivalence is measured in terms of profitability rather than volume of premiums. With regard to life-insurance enterprises, the supervisory authorities permit reinsurance abroad only for risks exceeding specific levels (1.5 million pesos for normal risks, with a decreasing scale for aggravated risks). In general, reinsurance abroad is permitted only if evidence is given of the inability of the national market to absorb the risks in question. In any event the various measures taken have resulted in a decrease in premiums ceded to foreign countries. Lastly, reinsurance brokers are required to insure themselves by means of an "errors or omissions" (professional liability) policy before they can receive a licence to do business.

103. In Nigeria enterprises have to submit applications to the Nigerian Reinsurance Corporation to place in a foreign country the share of reinsurance exceeding the mandatory 20 per cent ceded to this national reinsurer, which has first refusal of the 80 per cent remaining after the mandatory cession. This new development is regarded as having particular importance in the context of the African country south of the Sahara which has the largest insurance market and, furthermore, appears to have the most rapid rate of development.

104. In Indonesia control by the supervisory authority over all reinsurance arrangements has been strengthened. The purpose of this development is to implement more effectively a 1969 provision that risks situated in Indonesia may be reinsured abroad only up to a maximum level of 25 per cent. The exceptions concern risks which the local market is unable to retain. The increases in minimum capital in 1977 (see part one of this report) are also aimed at increasing the retention capacity of the national market as a whole.

105. In Sri Lanka efforts have been made to change the procedures for reinsurance treaties concluded with foreign reinsurers. The idea is to adopt "excess-of-loss" formulas which are more economical and offer national insurers maximum security. These formulas have not, however, completely replaced other more traditional methods for certain large risks and special classes of insurance.

106. Attempts have been made by some developing countries to admit international reinsurance. In Panama a new law on reinsurance enterprises was promulgated in 1976 and has entered into force. It provides for special authorization to carry on reinsurance business in Panama, whether as a reinsurance enterprise or as an intermediary. With regard to enterprises, the authorization may be "general", which permits reinsurance of risks situated in Panama or elsewhere, or "international", which limits operations to risks situated abroad and to off-shore business. Authorization is also necessary for enterprises which administer reinsurance pools or consortia. These enterprises act on behalf of several companies and must have capital and reserves equivalent to those required of reinsurance enterprises. The minimum required capital is $250,000, with a reserve of at least 35 per cent of net premiums; an exception is made in the case of the transport and group life branches. In addition, enterprises are required to establish a legal reserve of 0.25 per cent of the reinsurance premiums underwritten annually.

107. The new Panamanian law seems to aim essentially at the domiciliation in Panama of certain companies whose activities are very widely dispersed in geographical terms. To this end it is stipulated that the profits derived from the reinsurance of risks abroad are exempted from tax. It is also provided that reinsurance brokers and enterprises shall not do business with direct insurance brokers in Panama in regard to the placing of national risks, and that the latter shall not hold shares in reinsurance enterprises or reinsurance broking firms. The new law should result in the development in Panama of a registration centre (rather than a market), owing to fiscal and monetary advantages and favourable regulations. These advantages have been extended to foreign risks which the reinsurance enterprises protected by the law may henceforth accept directly (in other words, what is involved is no longer reinsurance, but direct insurance). Press reports indicate that many international insurance and reinsurance groups have already taken steps to benefit from these advantages.

108. In Singapore special authorization is henceforth necessary for reinsurance companies wishing to operate in that country. In this connexion, it will be recalled that Singapore is an important international centre for reinsurance business and that the majority of enterprises which have offices there - or in any event the most important of them - do not seem to be of direct concern to Singapore. The same is true of the origin of the business handled there. Singapore is more in the nature of an off-shore reinsurance centre similar to the Panamanian market. In this context the Government has decided to limit to 10 per cent the tax on income derived from off-shore reinsurance underwritten in Singapore. This measure will take effect for new business underwritten as from 1980.

Chapter II. Establishment of new reinsurance enterprises and measures concerning existing enterprises

109. In Fiji national insurers, encouraged by the Government, have decided to establish a reinsurance enterprise. Local sources state that this enterprise will save Fiji about $6.6 million a year. The enterprise began operations in July 1978 with a paid-up capital of $500,000. The shares are owned by the Government (20 per cent), insurers registered in Fiji (60 per cent) and miscellaneous shareholders and major broking and finance firms (20 per cent).

110. A similar development is reported in Trinidad and Tobago. The newly established company expects to receive, on a non-obligatory basis, 5 per cent of all direct business underwritten by national enterprises.

111. In Thailand too insurance enterprises established in the country have promoted the creation of the Thai Reinsurance Corporation, which has a capital of 30 million baht. It is stipulated that no shareholder may hold more than 5 per cent of the shares, so as to permit the broad participation of all insurance enterprises and to prevent a single enterprise from wielding excessive influence.

112. In the Philippines the National Reinsurance Corporation was established by presidential decree in 1977 and has been appointed to be the national shareholder in the Asian Reinsurance Corporation (see para. 133). By the same decree all companies on the national market are required to cede to the new company "at least 10 per cent of all new reinsurance placed which would be otherwise outward foreign reinsurance". The cessions concerned will be effected on the legal and economic terms applied in existing foreign reinsurance treaties. The companies on the national market therefore suffer no harm as a result of their cessions to the new reinsurer. In this connexion, it has been stated that the National Reinsurance Corporation will become the instrument which will permit the higher national retention essential for the healthy growth of the insurance and reinsurance market. At the same time, the Corporation must be able to use regional retention capacity, through its participation in regional or international co-operation or agreements in the area of insurance and reinsurance.

113. In Argentina the structure of the National Reinsurance Institute (INDER) has been substantially modified by a law which entered into force in October 1977. It is now an autonomous private-law enterprise whose shares are owned by the State. It is also reported that the Institute has made appreciable changes in the system of retrocessions to national insurance companies, which now participate to a greater extent in all business handled by INDER. In a country where dependence on foreign markets is already very limited, the new system should lead to even greater national retention. In addition, it may be noted that in Argentina the two largest institutions in the insurance and reinsurance sector (INDER and the National Savings and Insurance Fund), which are also institutions over which the State has effective control, may now transact reinsurance business.

114. In the Republic of Korea there has been a similar development. The regulations concerning business ceded abroad have been amended: all companies are now required to reinsure themselves up to a certain limit of their excess with the Korean Reinsurance Company before placing the surplus abroad. In addition, as part of the market reorganization referred to in paragraph 12, the Korean Reinsurance Corporation has undergone a number of structural changes. It has been renamed the Korean Reinsurance Company and is now owned by local insurance companies and other private interests.

PART THREE. REGIONAL AND INTERREGIONAL CO-OPERATION

Chapter I. Institutional co-operation between national authorities, trade associations, etc.

115. Regional co-operation at the institutional level is based essentially on a number of more or less official bodies established in various regions and subregions, bodies in which insurers and officials responsible for insurance matters in developing countries meet periodically in order to exchange information on insurance, discuss problems common to their markets, and from time to time adopt pertinent resolutions. In recent years the scope of such consultations has widened to include interregional meetings and meetings involving the whole of the third world.

116. It was in this connexion that the 1st Third World Insurance Congress was held at Manila in October 1977. The Congress was convened and organized by the Government of the Philippines with the assistance of the Asian Institute of Insurance, and was attended by several hundred delegates from 57 developing countries and a large number of observers, insurers and brokers from the major international centres. All important matters concerning the insurance sector in the third world were analysed and discussed and certain general guidelines were established. The Second Congress will be held at Buenos Aires, Argentina, in March 1980.

117. Another institution which extends beyond the purely regional sphere is the Federation of Afro-Asian Insurers and Reinsurers (FAIR) with its headquarters at Cairo, which held two general assemblies during the period covered by the present survey; the first was at Teheran in June 1977 and the second at Nairobi in June 1979. The members of FAIR are Afro-Asian insurance companies; its membership and influence are rapidly increasing and it can legitimately claim to be the spokesman for the insurance world in those two continents. At its Nairobi meeting it devoted particular attention to the question of marine cargo insurance and strongly supported the view that the developing countries should insure their imports locally. The next general assembly of FAIR is to be held at Manila in 1981.

118. With regard to regional and subregional meetings and other activities, the sixth African Insurance Conference 16/ was held at Nairobi in June 1978. The matters discussed concerned problems of the regional insurance industry, possible solutions and future prospects. During the discussions on exchange control and reinsurance, mention was made of the concern of monetary authorities at the increase in the resources spent on reinsurance placed outside the region. With regard to general insurance prospects, it was suggested that an African pool for aviation risks be established and that there should be joint placing for certain African shipping fleets. Other subjects discussed included the economic and social impact of insurance in Africa and the African motor vehicle third party insurance card. 17/

119. In Latin America, the Latin American Free Trade Association (LAFTA) held a meeting on insurance matters at Montevideo, Uruguay, in July 1978. This was the third meeting devoted to regional integration of insurance. It was attended by three representatives of insurance supervisory bodies from the region and more than

---

16/ See document TD/B/C.3/141, para. 90.

17/ See document TD/B/C.3/141, para. 84.

100 representatives of the insurance industry. 18/ One of the matters discussed was the promotion of a regional reinsurance market and growth in reinsurance transactions within the region. It was recognized that there was a vast untapped potential in that sector calling for a more active policy. Both the working documents of the secretariat of LAFTA and the position taken at the meeting by the Government of Bolivia were clearly directed towards such a policy, but the response to their proposals was not clear-cut. It was suggested that member States should give detailed information on how far they could cede reinsurance to other countries in the region, that being a measure which it was thought might stimulate the exchange of reinsurance business.

120. With regard to third party liability for motor vehicles in transit in Latin American countries, the proposal for a uniform insurance card found little support. It involved a system similar to that recently set up in Africa, which has already given positive results in other regions; under this system, insurance taken out in any one of the participating countries is considered to meet the requirements for third party insurance cover in all participating countries which the driver visits. Those countries which have adopted the system favour it because it contributes to the promotion of interregional trade and tourism. However, the meeting had other views and emphasized the fact that some insurance markets would lose a considerable amount of insurance business at present resulting from insurance policies taken out by motorists in transit.

121. Other questions discussed included the problem of marine cargo insurance. The recommendation of the meeting basically confirmed the policy of UNCTAD in this matter namely that cargo should as a rule be insured in the importing developing country. The study of problems concerned with export credit risk insurance led to a recommendation for the exchange of information and data on the risks and operational practices involved, so as to facilitate a better selection of business and a reduction in insurance costs; the establishment of a system of technical assistance for countries with insufficient experience; and the possibility of reinsurance business being exchanged among national institutions providing insurance cover in the Latin American region.

122. In Africa, the International Insurance Inspectorate of African States (CICA) 19/ held two meetings in 1978. The first took place at Cotonou in January and reviewed the main operational problems of the insurance markets of French-speaking Africa. The second meeting was held at Abidjan in December 1978 and considered, among other matters, the establishment of an inter-African motor vehicle insurance card, the functioning of the Insurance Institute at Yaoundé and the statistical material used in the member countries of CICA. Furthermore, with the assistance of UNCTAD, the Conference organized a symposium at Lomé, Togo, in October 1979 with the object of establishing a motor vehicle third party liability insurance system more in keeping with the requirements and capabilities of African countries.

123. The second meeting of insurance commissioners of Latin American countries was held at Buenos Aires in November-December 1979. At the first such meeting, held in December 1974 under the auspices of UNCTAD and ECLA, it had been agreed to maintain

---

18/ This imbalance between governmental and insurance industry representation suggests that the meeting was concerned with co-operation between regional insurance markets rather than intergovernmental co-operation. However, the fact that the aim of the meeting was to orientate intergovernmental action by LAFTA and that Governments did in fact take part makes its position somewhat difficult to judge.

19/ See document TD/B/C.3/141, para. 78.

existing contacts and establish regular co-operation. Those aims were developed further at the second meeting, which decided to establish an association of insurance commissioners so as to provide an institutional framework for co-operation. The association adopted a programme of future work comprising (i) exchange of information on legislation, methods of company regulation and markets; (ii) analysis of reinsurance trends, with the object of stimulating the exchange of business among the countries of the Latin American region; (iii) study of international transport insurance; (iv) promotion of regional and subregional vocational training programmes in insurance.

124. There was continued co-operation among the supervisory authorities of the Andean countries, 20/resulting in two meetings, one at Caracas in June-July 1977 and the other at La Paz in September 1978. These meetings gave rise to the implementation of several projects, including co-ordination and harmonization of statistics and accountancy terminology, with the object of facilitating and improving the supervision of the financial situation of insurance companies and of "using the experience of each of the countries of the Andean sub-region to achieve better supervision of the ratio of insurance rates to claims, administrative costs, intermediaries commissions, costs and results of reinsurance and enterprises' investments". The supervisory authorities also embarked on a study of costs of reinsurance placed externally and the formulation of methods to reduce those costs by increasing sub-regional retention capacity; a study of possibilities of improving vocational training; and an analysis of ways and means of meeting the increasing demand for agricultural insurance, export credit and transport insurance - a demand which, if fully met, should have a beneficial effect on the foreign trade of the countries concerned.

125. In the Caribbean the working party on insurance set up by the Standing Committee of CARICOM Finance Ministers held a meeting at Port of Spain, Trinidad and Tobago, in January 1978. The meeting concentrated on the need for a joint approach to the supervision of technical reserves and to registration requirements for insurance undertakings; solvency; and the documentation which insurance undertakings should provide for national supervisory authorities. Also in the Caribbean region, the Third Caribbean Insurance Conference was held in Barbados in September 1978 and was attended by all the insurers concerned. Among the topics most widely discussed was the function of insurers, reinsurers and the community as a whole as regards major risks and national disasters.

126. In central America the Consejo Centroamericano de Superintendentes de Bancos Seguros y otras Instituciones Financieras 21/ prepared a comparative study of motor vehicle insurance policies in force in the various countries of that area; a uniform policy was drafted on the basis of this study and was adopted by all the countries concerned in August 1977. Similar steps are now being undertaken in regard to fire and associated insurance.

127. The Inter-American Federation of Insurance Enterprises (FIDES) held two meetings, one in November 1977 at Santo Domingo and the other at Rio de Janeiro in November 1979. As in the past these meetings, initially designed as an opportunity for dialogue between the northern and southern halves of the hemisphere, developed into a series

---

20/ See document TD/B/C.3/141, para. 77.

21/ See document TD/B/C.3/141, para. 76.

of lectures given by leading experts from north and south Africa, since the large number of participants (over 1,000) precluded any discussion in plenary session. It should be noted that FIDES is a staunch supporter of private insurance firms and that insurers in those countries of the western hemisphere in which insurance is a State monopoly cannot become members or be invited to meetings.

128. The East Asian Insurance Congress met at Singapore in October 1978. One of the features of this important body, whose membership includes virtually all east Asian countries, is that insurance commissioners play a leading part in it. They head each national delegation, which of course is made up primarily of insurers, and even hold their own sessions, since one of the functions of the Congress is to provide a framework for the biennial meetings of the Association of Asian Insurance Commissioners. The combined presence at the Congress of commissioners and insurers lends the Congress a certain official character and enables it to take policy decisions on insurance matters.

129. Five countries of south-east Asia - Indonesia, Malaysia, Philippines, Singapore and Thailand - form a homogeneous subgroup called the Association of South-east Asian Nations (ASEAN). The Insurance Council of the ASEAN Countries was set up in 1977 by 20 leading figures in the insurance industry of the south-east Asian region. The aims of the Council are strictly commercial and its immediate objective is to set up statistical information centres and to provide information for insurance supervisory authorities. It also proposes to study the possibility of setting up a subregional reinsurance company for the ASEAN countries, to exist side by side with the regional Asian reinsurance Corporation (see the following chapter).

130. In the same sub-group of countries, several meetings of supervisory authorities (ASEAN Insurance Commissioners) were held in 1977, 1978 and 1979. These meetings are official and intergovernmental, and deal with a wide variety of topics on a continuing basis, namely:

(a) The establishment of a committee to study the possibilities of harmonizing the insurance legislation of the members of ASEAN.

(b) The adoption of a standardized system of statistics on the basis of work done by a technical committee, set up at Manila, to follow up the UNCTAD recommendations for a unified international system of insurance statistics (see document TD/B/C.3/106/Rev.1). The object of the standardization is to facilitate the exchange of information on insurance among member countries and the study and supervision of national insurance markets with a view to increasing the retention capacity of the ASEAN region.

(c) The establishment of an ASEAN insurance council, composed of representatives of the five national insurance markets, to complement the activities of the commissioners, help to strengthen regional insurance and reinsurance links, and promote the study of insurance in universities and through seminars and workshops.

(d) The establishment of an ASEAN reinsurance undertaking to form the basis for an increase in regional retention capacity.

(e) The preparation of regional mortality tables; a special committee has already embarked on collecting mortality statistics. This project is being carried out side by side with an identical project of the Association of Asian Insurance Commissioners, of which all ASEAN insurance commissioners are members.

(f) Measures to facilitate the free circulation of motor vehicles in the countries of the ASEAN region with a guarantee of adequate insurance cover.

(g) Exchange of information among vocational training institutions in member countries.

131. In conclusion, mention should be made of the work of the General Arab Insurance Federation, which held three meetings, at Kuwait in April 1977, at Algiers in April 1978 and at Tunis in May 1979. At the Tunis meeting the Federation decided to transfer its headquarters from Cairo to Damascus. It has an extensive programme which includes regulatory as well as operational activities, some of which are referred to in the following chapter.

Chapter II. <u>Intergovernmental and private operational co-operation in insurance and reinsurance</u>

132. In the third world it is generally true that contacts, however frequent they may be, between insurers from developing markets at regional and subregional meetings scarcely ever lead to joint activities at the operational level, since the individual markets prefer to direct their business to the large international insurance centres, particularly those of the former metropolitan countries. There are certain exceptions to this rule in particularly homogeneous groups such as the Arab Union, and between a few neighbouring States, as for example between Brazil and Paraguay in regard to the Itaipu hydroelectric scheme, but these exceptions only prove the rule.

133. In this context, the establishment in both Africa and Asia of intergovernmental reinsurance institutions - the African Reinsurance Corporation (AFRICARE) and the Asian Reinsurance Corporation (ASIANRE) - is of particular importance. These two projects have totally undermined two ideas which were deeply rooted and had been carefully fostered, namely that international reinsurance is much too complicated an activity to be undertaken by markets outside the major international centres, and that Governments should leave such action entirely to the private sector.

134. Both AFRICARE and ASIANRE are in the forefront of action in their respective regions. Both were established after many years of study and negotiation, initially between Governments and then between Governments and their insurers. The two regional corporations were placed under the management of reinsurance specialists and had the support of the Governments concerned, which is essential if the cessions promised by each market are to be regularly forthcoming. They have just begun operations and have great potential, in view of the very rapid rise in demand for reinsurance which has recently taken place both in Africa and Asia as a consequence of the economic and technological development of those two continents.

135. The headquarters of AFRICARE is at Lagos, Nigeria, and it comprises 35 African member States. It began operations on 1 January 1978 following its constituent assembly of 30 March 1977. AFRICARE is thus two years older than ASIANRE, the constituent assembly of which was held on 28 May 1979. ASIANRE has its headquarters at Bangkok, Thailand, and its members are the following ten Asian States: Afghanistan, Bangladesh, Bhutan, China, India, Iran, Philippines, Republic of Korea, Sri Lanka, Thailand.

136. Another form of regional co-operation at the operational level is the setting-up of pools. The regional pools now functioning are described and analysed in a recent UNCTAD study (TD/B/C.3/160) to which reference may be made. As far as the pools of the <u>General Arab Insurance Federation</u> are concerned, the Federation's Arab Pools Committee decided at a recent meeting to regroup some pools and to hand over their management to specialist reinsurance companies selected from among those operating in Arab countries.

137. In the same region, other forms of insurance co-operation include the joint cover of certain shared interests such as the tankers of the Arab Marine Petroleum Transport Company, the Arab Shipbuilding and Repair Yard Company (ASRY) and the vessels of the United Arab Shipping Company. Two agreements are still in operation in regard to the insurance of a number of Arab airlines; one is in North Africa and the other in the Middle East, between Iraq, Syria and Jordan. The most recent example of Arab co-operation is an agreement between a group of oil tanker owners belonging to certain member States of the Organization of Arab Petroleum Exporting Countries (OAPEC) and a group of insurance concerns in the same States; this provides for global cover for the tankers concerned. The international reinsurance market will participate in this operation under a joint reinsurance scheme.

138. In the same context, an important development is that national companies in the Gulf area have succeeded in agreeing and adopting common positions when confronted with unilateral decisions by the London market on matters of particular concern to them. The London decisions sought to exclude war risks from existing reinsurance treaties from August 1979 onwards for all navigation in the area. The cover was later reinstated, except for certain special risks, but at higher rates. The insurance companies in the area affected by these measures began negotiations with the reinsurers in London, following which the premium increases were cancelled in September 1979. However, fresh increases were imposed with effect from 22 November 1979, which led to further consultation and negotiations.

139. Bilaterally, an insurance company sponsored by Algeria and the Libyan Arab Jamahiriya was established in 1979 with the apparent aim of facilitating the joint reinsurance of excesses arising from risks underwritten by the national insurance enterprises of these two countries. The main aim seems to be to negotiate the most favourable international reinsurance terms for risks exceeding national capacity, and at all events to secure better terms than those which the respective national companies could negotiate individually. A second aim is to underwrite international reinsurance in exchange for business ceded. The Mediterranean Insurance and Reinsurance Company, as it is called, has its headquarters in London.

140. Also in the bilateral field, co-operation between Brazil and Paraguay in regard to the Itaipu hydroelectric project has already been referred to. The basic cover is $14 million over 12 years; it includes construction risks, liability, and damage to materials in transit. In future years price and cost increases could double the sum insured. Special cover has also been arranged for $100 million. The business is divided equally between the two markets concerned. Moreover, the Instituto de Reaseguros do Brasil will share in business underwritten not only in the Brazilian market but also in the Paraguayan market, to the extent of 50 per cent of the commitments which it assumes. In view of the magnitude of the sums involved, some of the risks are to be reinsured on international markets, but on terms which will enable the two national markets to participate to the extent of their respective potentials.

141. Although not operational co-operation in the business sense, multinational co-operation in vocational training deserves special mention in this connexion. The most important occurrence in this field has been the establishment in 1978 at Monrovia, Liberia, of the West African Insurance Institute by the five English-speaking countries of west Africa (Gambia, Ghana, Liberia, Nigeria and Sierre Leone) with the assistance of their subregional association, the West African Insurance Consultative Association (WAICA). The immediate aim of the Institute is the training of middle managers for the insurance enterprises of the countries concerned. More generally, the objects of the Institute are (a) to give vocational training to the staffs of enterprises and of governmental insurance supervisory agencies; (b) to act as a centre for the compilation of technical and statistical insurance data and to render technical assistance to member States. The Institute will also be expected to organize research in the insurance and connected fields. The Governing Council of the Institute comprises a representative of each of the five member States and three representatives of WAICA. The Chairman is the Liberian Minister for Commerce, Industry and Transportation and the Institute enrols some 50 to 60 students a year.

142. In the English-speaking countries of east Africa similar projects were beginning to take shape during the period under review. Their object is the establishment of a teaching centre at Nairobi.