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INSURANCE

Insurance in developing countries

Developments in 1973-1974

Study by the UNCTAD secretariat

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

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Introduction

(i) The Committee on Invisibles and Financing related to Trade, at its second session (April 1967), requested the secretariat "to carry out at least once every two years reviews of developments in insurance, with special reference to developing countries".^{1/} The present document, relating to the period 1973-1974, has been prepared pursuant to this request.^{2/}

(ii) A large part of the information and data needed for the preparation of this study was provided to the secretariat by the governments of developing countries. The latter were requested, by a note verbale from the Secretary-General dated 14 November 1974, to help the secretariat to collect this information. Out of a total of 110 countries which were approached, 42 complied with this request and provided information most of which was highly useful. The secretariat also obtained material from other sources, especially from insurance trade journals and periodicals and various financial periodicals.

(iii) As it was obliged to draw on very varied and often incomplete sources of information, the secretariat was not able to draw up an exhaustive and balanced list of all the important developments which occurred during the period under review. For the same reason, the degree of importance attached to certain developments referred to in this study is generally related to the view of them taken by the various sources of information, the correctness of which views it was of course impossible to ascertain. However, rather than the intrinsic importance of the developments, the secretariat has endeavoured to show their relative importance in the context in which they occurred. For this reason more weight has been given to certain modest developments in countries where national insurance business is still very small than to developments which were more important in absolute terms, but which concern countries that are relatively advanced in this field. The secretariat has sought to provide information which will be useful for the least developed among the developing countries, so that they can draw from the experience acquired elsewhere conclusions adaptable to their territories. This is in fact what the Committee on Invisibles and Financing related to Trade, at its sixth session, had asked it to do ^{3/} in connexion with topics which have been given prominence in this study, namely, measures aimed at structural modification of the national insurance market or expansion of regional and subregional co-operation among developing countries.

^{1/} See the Committee's report in document TD/B/118/Rev.1 - TD/B/C.3/51/Rev.1, annex 1, section A (Insurance), paragraph 6.

^{2/} The periods 1968-1970 and 1971-1972 were dealt with, respectively, in documents TD/B/C.3/99 and TD/B/C.3/107, submitted to the Committee on Invisibles and Financing related to Trade at its fifth and sixth sessions (December 1971 and July 1973).

^{3/} See paragraph 3 of resolution 7 (VI) adopted by the Committee (TD/B/464 - TD/B/C.3/117, annex 1).

(iv) The present study may also help the Committee to identify factors which are hampering the development of the insurance sector in some developing countries and to formulate a common policy with a view to developing their joint potential in this sector.

(v) The study is divided into three chapters. Chapter I describes measures which have been taken by governments of developing countries to modify the structure of the insurance market and to ensure supervision of insurance companies and business. The result of these measures and of other factors which have caused considerable changes in the development of the market and in the business done in it is considered in chapter II. There is often a considerable interval between the time when the State takes a specific action and the time when that action yields practical effects. This interval is of particular importance as the period covered by the study (two years) is relatively short. This is why it was considered necessary to deal separately with State decisions and the result of the decisions, although it would have been interesting to analyse the two topics together. Chapter III is concerned with developments in regional and subregional co-operation in the matter of supervision of insurance concerns and insurance business proper.

I - DEVELOPMENTS IN THE FIELDS OF INSURANCE POLICY, LEGISLATION AND SUPERVISION
IN DEVELOPING COUNTRIES

1. As in preceding periods, governments of developing countries have taken measures in a number of different areas. These comprised:

(a) Measures to modify the structure of the national insurance market. As a rule, political considerations played a part in the steps taken in this field; their purpose has been either to take all or part of the insurance market away from the private sector and entrust it to State-controlled enterprises or to reserve for national interests, private or public, a larger share of the market, to the detriment of foreign interests which sometimes held a preponderant place in it. In some cases rules regarding the establishment of insurance enterprises have been laid down with the object of ensuring that these institutions are better adapted to the requirements of the modern economy and to the economic and social development of the countries concerned;

(b) Particularly in countries where the insurance business is in the hands of private companies, efforts have been made to create or improve legislative frameworks and methods of supervision. These involved adapting the activities of insurance concerns to the interests of policy holders and more effectively reconciling the dynamism and independence which these countries allow to private enterprise with the general interest. In this connexion, some governments have adapted existing laws to new developments or have modified them to take account of past experience;

(c) A third category of measures are concerned with regulation of the contractual and commercial relationships between insurance enterprises and their customers. The aim here is to ensure that the former are unable to take advantage of their privileged position not only with regard to contracts but also in relation to tariffs and the offering and sale of policies to policy holders;

(d) Governments have also taken action in the specific field of reinsurance, which shows that the public authorities recognize the preponderant role of reinsurance transactions in the policies and operations of insurance concerns, and the impact of these transactions on the national economy.

(a) Laws and regulations concerning the structure of the national insurance market and the legal ownership of companies

2. The purpose of most of the measures taken in this field is to create a legislative framework within which national interests play a more important role in the country's insurance business. The most extreme form which measures to this end have taken consists in complete nationalization of these activities, the latter being entrusted to a State-owned concern which has a monopoly of the national market.

3. The Islamic Republic of Mauritania, the People's Republic of the Congo and apparently Ethiopia witnessed governmental action of this kind. In the first of these countries a national company (Société Mauritanienne d'Assurance et de Réassurance) was established and was granted a monopoly of national insurance business (Act No. 74160 of 27 July 1974), while the licences which had been granted to foreign insurance companies up to that time were cancelled. With

regard to the latter, it was specified that the cover provided by these companies would continue in force until expiry and that the legal representatives of the companies were held responsible, both financially and ponally, for the safekeeping of funds, securities and documents held on behalf of the companies which they represented. The liquidators of these companies are to be appointed by the Ministry of Trade.

4. In the People's Republic of the Congo, unlike in Mauritania, the Government's action was not directly aimed at achieving what proved to be the same purpose, although it was the indirect determining cause. Two orders signed by the President of the Republic were promulgated on 31 October 1973; one of them reorganized the country's insurance industry while the other established the national company Assurances et Réassurances du Congo. The former laid down new conditions with which insurance companies and branch offices established in the country had to comply in order to carry on business in the country. Each concern was required, inter alia, to lodge a guarantee deposit of 25 million CFA francs with the Congolese treasury, to do annual business amounting to 200 million CFA francs of premiums and to reinsure 25 per cent of its business with the newly-established national company on terms laid down by the Ministry of Finance. These orders, made for the purpose of limiting the number of companies on a saturated market were considered too severe by the companies and branch offices to which they applied, and these concerns therefore requested the Ministry of Finance to cancel their licences throughout the Congo; this was done at the end of January 1974. The newly established national company thus acquired a de facto monopoly of the Congolese market.

5. It was also with the object of giving the insurance business to the most representative interests of the nation that Yugoslavia introduced changes which are opening the way to a new socialist concept of the insurance concern and a revitalization of the mutualist principle. Under Yugoslavia's new Constitution, promulgated in 1974, insurance companies are being transformed into "insurance communities" placed under the sole administration of the policy holders and managed by the latter's representatives. These concerns are to set their own tariffs and conditions, having regard to the economic and technical principles applied in insurance. They will also have to have recourse to co-insurance and reinsurance whenever their retention capacity is insufficient.

6. In other countries State action to facilitate access by national interests to the insurance sector has not excluded participation by private interests and has even encouraged their participation. In Morocco, a policy of this nature went so far as to prohibit foreign companies from doing business in the country. In accordance with the dahir of 2 March 1973 concerning the moroccanization of certain activities, except where otherwise provided by an international agreement, only individuals and bodies corporate of Moroccan nationality may do insurance business in Morocco. Entities not fulfilling the conditions laid down (50 per cent of capital Moroccan, chairman and managing director Moroccan and a Moroccan majority on the Board of Directors) were given a period of one year (for agents) and two years (for insurance concerns) to comply with them. Similar measures were also adopted in Indonesia, but these applied only to life insurance concerns. For non-life insurance a different policy was adopted whose immediate purpose is gradually to alter the business methods of foreign companies by encouraging them to enter into association with purely national interests. Through such association an attempt is being made to foster larger and sounder production units and to consolidate the national market. The companies resulting from such mergers enjoy substantial tax exemptions.

7. In other countries, particularly in Latin America, the developments reported are along the same lines. Thus, in Argentina, the Government has submitted to Congress a bill which would prohibit the participation of foreign capital in the insurance sector. The latter would thus be placed in the same position as other key sectors of the economy (energy, transport, communications, commercial banks and new financial institutions) whose operations are also reserved for national interests.

8. Other Latin American countries have taken steps, before committing themselves further, to establish the identity of foreign participation in concerns established under municipal law, or, in other words, to make certain that national companies are representative of genuine national interests. The governments concerned are clearly making an effort to ensure that the conferring of nationality on insurance companies ceases to be dependant on the legal fictions which had prevailed in the past. In Brazil for this purpose a stricter distinction is made between what is understood by "national companies" and companies in which the national representation is sometimes achieved merely through the loan of a name. The criterion selected was a two-thirds participation of national capital in national companies. The transfer of shares has been strictly regulated. The national authorities took care to explain that the purpose of this selective policy was not to rule out foreign co-operation in the insurance sector, but only to protect national interests at a time when the country's economic potential has to be developed.

9. The measures taken in Peru follow the same lines; national companies must be at least 80 per cent controlled by national interests. This measure does not apply to branches of foreign companies established in Peru; but since foreign insurance concerns are no longer permitted to set up in business there, in the end result should be the complete take-over of the insurance industry by national interests. It should be recalled here that the action taken had its origin in the provisions of Decision No. 24 of the Cartagena Agreement, signed in December 1970, under which only those concerns in which more than 80 per cent of the registered capital belongs to national investors, and whose technical, financial, administrative and commercial management reflects the proportion of national investment in the enterprise, can be deemed to be national companies. This decision also stipulates that no new foreign investment shall be permitted in the insurance sector (nor in commercial banks and other financial institutions).

10. These measures do not differ fundamentally from those taken in Thailand, where at least 85 per cent of the shares of national insurance companies must be held by Thai nationals. The boards of directors of these companies must have at least five members, all Thais.

11. The policy of registration of companies or of advance authorization of their activities (licencing) has also provided, as was indicated above, a means whereby various developing countries have been able more effectively to adapt the structure of the market to national requirements. Thus Tunisia has followed ~~Morocco's example 1/ inasmuch as the grant of an authorization is dependent on the~~

1/ See UNCTAD document TD/B/593 entitled Insurance legislation and supervision in developing countries, Part two, paragraph 29, (United Nations publication, Sales No. 72.II.D.4).

applicant concern's carrying on a specified minimum volume of business. This must not fall below 500,000 dinars of premiums per annum (premiums written net of cancellations, plus premiums accepted in reinsurance and minus retroceded premiums relating to these acceptances in reinsurance).

12. Other countries have limited the growth in the number of companies operating on their territory. Jordan has laid down new conditions for the registration of companies; these will be accepted only if they are established as public shareholding companies and their founders will not be permitted to subscribe more than 50 per cent of the registered capital, which seems to indicate a desire to keep the insurance sector independent of the other sectors of the economy, and to eliminate private underwriting associations from the market.

13. In Indonesia and the Philippines action by the authorities has been aimed at achieving a concentration of the national insurance market by encouragement of mergers. In the Philippines a regulation has been issued to facilitate this process. It stresses the need to protect the interests of policy holders when mergers take place. It is stipulated, for instance, that policy holders shall be given advance notice of any merger plans of their company and that the company or companies absorbed or dissolved shall carry out all their obligations or that these obligations shall be transferred, with the consent of the beneficiaries, to the company resulting from the merger. In Indonesia, the Government has encouraged the formation of larger and more productive insurance concerns (see paragraph 6), through the merger of foreign companies with national interests.

14. However, despite the measures generally adopted to ensure that insurance business is carried on by an optimal number of companies and that these companies and their activities are regularly supervised, illicit insurance transactions continue to occur. There is, of course, no reportable evidence of such activities, but there are valid grounds for stating that such activities do in fact take place in many developing countries. The effect of illicit insurance on the sound development of the insurance market in developing countries will be dealt with in greater detail in paragraphs 63 and 64.

(b) Laws and regulations concerning the operation of insurance concerns and its supervision

15. The period 1973-1974 did not see the entry into force of much new legislation designed to ensure State control of insurance concerns and underwriting activity. In most cases, the developing countries took the necessary steps to establish such supervision through enactment of insurance legislation and the creation of administrative machinery for its implementation as soon as they became independent. Generally speaking, the absence of such supervision coincides with a very recent accession to independence. Equatorial Guinea, Guinea-Bissau and Mozambique are examples of this situation.

16. However, in two countries which do not fall in this category, legislation and supervision proper were introduced only during the period covered by the present study; these are the Gambia and the New Hebrides. The new laws enacted in these two countries stipulate that insurers must be registered and satisfy a number of legal, technical and financial requirements. The Gambia's legislation is particularly explicit concerning the functions of the insurance supervisor; he is responsible, inter alia, for registering insurance companies (a licence may be granted only if the supervisor has good reason to suppose that their business will

be conducted in accordance with judicious and sound practice), and for examining their accounts. He must also lay down rules for the conduct of insurance business, approve general conditions of insurance and the scale of premiums, and supervise the insurance agents, and average assessors and adjusters.

17. In addition to the two above-mentioned countries, reference should also be made to the United Republic of Cameroon, where it was recognized that the insurance laws in force, modelled on those inherited from the former colonial Powers, were no longer suited to the needs and characteristics of the country. A new law was accordingly drafted in 1975. The national authorities stated, in connexion with this legislative measure that the legislator's ultimate purpose was to integrate the insurance business in the development effort. To this end, it was necessary to require insurance enterprises established in the country to adopt an organizational structure adapted to the pursuit of the new objectives, and to require them to invest in Cameroon that part of the premium income earmarked as technical reserves.

18. Other countries also admit that their present legislation is no longer suited to present-day conditions and are engaged in making far-reaching changes in it. They include Burma, Fiji, Lesotho, the Malagasy Republic and Nigeria. In the Dominican Republic also studies are being carried out with a view to a comprehensive revision of the legislation in force. It was stated in this connexion that new regulations should ensure a much greater retention of risks in the country, by making greater use of the companies' retention capacity.

19. In some countries the period 1973-1974 saw the effective entry into force of new laws and regulations which had been enacted just before the beginning of this period. 1/ In Jamaica, for instance, the new regulation promulgated on 29 December 1972 made far-reaching changes in the method of supervising insurance business and resulted in a number of administrative measures which were not actually applied until the period 1973-1974. The same comment can be made with respect to Ghana, where the very important laws and regulations adopted during the second half of 1972 were generally not put into effect until 1975.

20. Changes of some importance in existing laws and regulations were made in the following countries during 1973-1974: in Argentina, a new Act (No. 20.091 of 7 August 1973) gave the supervising authority wider powers and the status of a public entity, enjoying considerable independence vis-à-vis the executive authority. The insurance supervisor is assisted by a council of five members, representing the insurance market. The new law also lays down rules for the conduct of activities of insurance co-operatives (which may only underwrite the risks of their members), rules for mergers between insurance concerns (the terms of the merger must be submitted to the insurance supervisor for approval and communicated to the policy holders, who are entitled to raise objections) and rules concerning advertising by insurance concerns, which must avoid any ambiguity in their announcements. The preamble of the new law states that the questions of the treatment of national enterprises, the protection of Argentinian risks and the activities of the National Institute of Reinsurance will be dealt with in

1/ See TD/B/C.3/100

future legislation. In Brazil also insurance supervision has undergone many changes. The following are the most important of these concerns with a registered capital exceeding 10 million cruzeiros are authorized to extend their activities to foreign countries, new rules now apply to group insurance; new methods are to be used to calculate the liquid assets of concerns subject to supervision; and new accounting rules must be observed. It was also reported that present and future action by the Government had the following objectives: (1) concentration of the insurance market and reduction of the number of insurance concerns; (2) periodic revision of the minimum registered capital; (3) incentives for the reinvestment of profits; (4) reformulation of insurance policy. In Singapore, the Insurance Act was amended substantially in April 1973, pending the promulgation of entirely new legislation, which is now being prepared. These changes ensure more effective supervision by the State of insurance concerns and conduct of their business in a manner more in accord with sound insurance principles. The insurance supervisor has been given greater powers to deal with companies that are insolvent or are threatened with insolvency. Concern to protect the insured public has resulted in the supervisor being empowered to cancel the licences of companies which conduct their business in a manner deemed detrimental to the interests of policy holders or which have not made satisfactory reinsurance arrangements. The licence may also be cancelled when the public interest so requires. The discretionary powers granted to the supervisor are therefore quite substantial.

21. In Paraguay the minimum registered capital requirements have been tightened for both national and foreign insurance companies. The object of this measure was to achieve a better relationship between the amount of such capital and the commitments of the companies, as well as to increase their retention capacity. Increased capitalization was also required in Thailand. In Indonesia too, national life insurance companies have been obliged to increase their registered capital. However, a fairly modest figure, namely 100 million rupiah (US \$ 25,000) must not be exceeded. In the Philippines, a similar increase has also been made mandatory; all national companies must have a capital of 2 million pesos and foreign companies must hold, on deposit with the insurance supervision authority, stocks and shares or securities and worth the same amount. In addition, the powers of the authority were extended on 1 January 1973. The objectives of this measure were to ensure: maintenance of the liquidity and solvency of insurance concerns; a reduction of transfers abroad for reinsurance payments (national reinsurers are given priority in reinsurance business and recourse may be had to foreign reinsurance only when the national facilities are insufficient); co-ordination of the companies' investment policy and the policy of the State in the monetary, credit and tax fields.

22. There is a fairly marked trend among authorities in a few countries to adapt investment of technical reserves and other financial guarantees either to new requirements of the national economy or to the need to strengthen the financial security of the insurance concerns, or to allow greater flexibility in the financial management of these funds, which has had the result of encouraging insurers' activities. This trend is not found only in developing countries. France, for instance, has been applying since December 1972 new investment rules^{1/}

^{1/} See the "Rapport économique de la Fédération Française des Sociétés d'Assurance", in L'Argus, Paris, No. 933, 10 August 1973.

specifically designed to ensure that investments are better adapted to the country's economic and financial situation and to allow the concerns new opportunities in the management of their investments. This would seem to confirm the need for a dynamic approach to investment, irrespective of the country's stage of development. One comment should however be made on the measures taken in developing countries which are described below: the changes in rules governing investments and reserves which are mentioned are those which have been the subject of a law or regulation. It may be assumed that some countries have been able to bring about changes in the investment policy of insurance concerns by a direct and unofficial approach to them, without such action having been officially publicised. Therefore, it cannot be claimed that the following is an exhaustive account of all the measures taken by supervisory authorities.

23. In Colombia, decree No. 2165, which was issued in 1972 but entered into force only in the financial year 1973, confirms that the system specifying those investments which are permissible and those which are compulsory is one of the most effective means of channelling private savings into investment that will promote the country's economic and social development more effectively. By this decree the Government also acknowledges that it is essential to see that more loans are available for the construction of cheap housing. It lays down that 55 per cent of any increases in technical reserves shall be set aside for the purchase of national debt funds which will be earmarked for the construction and improvement of such housing. In the case of increases in the mathematical reserves of life insurance concerns, this proportion is 60 per cent. In addition, new general rules now apply to insurance concerns regarding the investment of their reserves (decree No. 1729 of 1974) and regulations governing the investment of insurance companies' own funds were issued by decree No. 1731 of 1974. Funds which are not subject to the mandatory investment rules may be invested in fixed-term deposits with savings banks and building societies and in the latter's mortgages.

24. In Gabon, the previously existing regulations concerning representation and investment of technical reserves have been replaced by the provisions of a new decree dated 1 August 1974. Rules concerning the valuation of assets have also been issued.

In Malaysia the percentage of insurers' investments which must be in State securities has been raised from 65 to 75 per cent. The value of investments in Federal Government bonds has gone up from 10 to 20 per cent of total reserves and guarantees.

25. In Mexico, the technical reserves for earthquake insurance (see paragraph 40) must be calculated on the basis of 40 per cent of the net premiums (retained). The interest of this measure lies in the fact that this reserve is cumulative and can only be used, with the consent of the supervisory authority, when the insurer is able to prove that the compensation received from the reinsurers is not sufficient to meet the claims upon him.

26. In the Republic of El Salvador, action taken by a Junta Monetaria (Monetary Board) set up in August 1975 to formulate and direct the Government's policy in the monetary, foreign exchange, credit and financial fields, will indirectly affect the financial management of funds held by insurance companies. The Junta Monetaria has already stipulated that 15 per cent of the technical reserves (gross of reinsurance) must be invested in securities issued or guaranteed by the State.

27. The developments described in the preceding paragraphs seem to indicate a trend (in a very small number of countries) towards strengthening the powers and functions of the supervisory authority, increasing the requirements with regard to the registered capital of enterprises (requirements which, in most cases, are only timid and overdue attempts to compensate for the fall in the value of the national currency) and introducing stricter rules concerning the investment of insurance companies' funds and reserves, with a view to increasing their financial security. These trends coincide with similar efforts which are being made in industrialized countries. The case of France has already been mentioned and reference may also be made to the measures taken by the United Kingdom and other developed countries to strengthen supervision. That should normally serve to encourage national authorities of developing countries to pursue the same course more actively. Unfortunately, it must be noted that the efforts of these authorities, and especially of those authorities which are directly responsible for the enforcement of the insurance laws, continue to come up against a great many obstacles. Caught between forces which are often conflicting, subjected to the influence of pressure groups which try to make them alter their decisions, and having to bear in mind political considerations and differing interests which have to be reconciled, they often have little latitude in decision-making.

(c) Laws and regulations governing contractual relationships between insurance concerns and their policy holders and beneficiaries

28. Protection of the interests of policy holders and beneficiaries under insurance contracts is one of the basic functions of the State within the framework of the measures it is called upon to take in the insurance field. 1/ This protection has found concrete expression in various laws and regulations concerning contractual relations between insurers and policy holders which have been introduced in some of the developing countries. In addition to the most important developments in this field which are referred to below, account should also be taken of all those efforts made by the State or by official bodies of which there is little or no public knowledge and which tend to make the legal and financial relations between the parties to the insurance contract fairer and more equitable.

29. This is an important matter, particularly in developing countries where the growth of the domestic insurance market is closely related to the confidence which the insurance companies inspire in the public. A number of factors lead one to assume that this confidence was frequently betrayed during the period under review. This has led to complaints, more or less justified, but of a very general nature, concerning the manner in which the companies fulfil their obligations, especially when a loss occurs. A number of reasons for this may be advanced. One of them, which seems fundamental, is the fact that the purchaser of the policy frequently believes in good faith that he is obtaining a guarantee which the contract does not provide. Contracts are still very often drawn up in technical and legal language that is deliberately obscure and which the public has

1/ See Insurance legislation and supervision in developing countries, op.cit.

difficulty in understanding. In addition there is also the not always felicitous action of insurance agents, whose interest in the sale of policies prevails over their duty to describe objectively the real guarantees provided by the policies. The pricing of insurance also sometimes gives rise to abuses in developing countries. That explains the action taken by some Governments, during the years under consideration, to check abuses in connexion with contracts, sales, rates and settlement of claims. This is an area to which attention has also been paid by the authorities and bodies concerned in some developed countries; hence the appointment of ombudsmen and other measures designed to eliminate mistrust, whether justified or not, of insurance organizations. The comment could be made that these activities are not carried out with the required intensity in developing countries.

30. However, there are some comforting exceptions. One of the most important developments in this field is reported in Colombia, where new legislation applicable to insurance contracts and designed mainly to protect policy holders was promulgated in 1974. The model policies stipulated in this legislation limit the possibility for the insurer, who normally draws up the policies, to abuse the position which this practice confers on him.

31. In Pakistan also measures designed to protect the public were worked out in 1974. However, these measures were not initiated by the Government but by the Pakistan Insurers Association which wished by this means to promote an expansion of business by improving the quality of the services offered to the public. A code of professional ethics was prepared for this purpose, and 28 Pakistani and 19 foreign companies have already adhered to it. These companies have been required to sign an agreement with the Association which guarantees the implementation of the code. Cases of infringement of the code will be considered by the Association's Central Committee.

32. Steps have been taken with the same objective by the Nigerian Insurers Association, which was established in 1973. Its aims are not only the protection and promotion of the common interests of the insurers, but also a better understanding of insurance by all sectors of the national community, which means that the members of the Association will have to conduct their business in such a way that they render a real service to this community.

33. In the Bahamas, insurance supervision has continued to be active in this field of effective protection of policy holders. It is interesting to note the efforts made with regard to supervision of advertising by insurance concerns. The Registrar of Insurance has reminded these concerns, whenever he has deemed it necessary, of the provisions of the law which prohibit the use of misleading advertising. Notices were sent to supervised companies asking them to submit to the Supervisor, before publication, any advertisements which they intended to place in the information media. In addition, guidelines adopted in February 1973 are designed to ensure satisfactory settlement of claims inter alia by stipulating a relatively short period for settlement and a procedure which specifies clearly the obligations assumed by the insurer. It is clear, however, that such guidelines can be laid down only when the law specifies that the insurance supervisor is empowered to do so and that he may have to take action to ensure that insurance enterprises carry on their business in accordance with sound and equitable principles.

34. It is also in a desire to ensure better service for the public and to give the latter a better understanding of the product which it is buying, that, in Iraq, the State Insurance Organization and its companies have continued to translate insurance policies and other types of contract into Arabic. In the Philippines, directives were issued in February 1973 by the insurance supervisor under the power conferred on him to make awards against insurance concerns in the case of claims not exceeding the sum of 100,000 pesos.
35. In the field of action by insurance agents, brokers and other intermediaries between insurers and the public, only Colombia seems to have taken any important measures during the period under review. By Presidential decree No. 361 only brokerage concerns set up as such, in accordance with the Commercial Code, registered with the Superintendencia de Bancos and holding a certificate issued by that body can describe themselves as insurance brokers and act as intermediaries between policy holders and insurers within the national territory. The decree specifies certain categories of persons who cannot be members of a brokerage concern, among whom are persons who are members of other enterprises whose insurance premiums amount to 20 per cent or more of the total premiums handled by that brokerage concern, civil servants, employees of insurance concerns and banks and insurance agents. The latter must be registered with the Superintendencia de Bancos. They must inform their company, within three days, of any premiums which they collect. Accounts must be settled twice a month. Advances on commissions may not exceed 10 per cent of the total commissions earned in the preceding half year. Advances must be repaid within a period of one year. There is no doubt that these measures are inspired by the growing need to improve the professional qualifications of those who have the responsibility of selling insurance policies to the public. Many countries are moreover concerned at the growth in the amount of business in the hands of a few intermediaries, which enables them to exercise undue influence on insurance concerns - an influence which can even amount to effective control - and at undue delays in the paying over of premiums, which remain in the intermediaries' hands, to the detriment of the insurers' liquidity and investments. It does not seem that effective and adequate measures are often taken in developing countries to establish fairer practices in these fields.
36. As far as fixing the cost of insurance is concerned, the supervisory authorities have taken action in a very few instances only. This lack of activity is probably due to the insufficiency of effective price control which is characteristic of many developing countries, irrespective of the powers the law gives to the supervising authority in this field and of the need for such control. However, there is some activity especially in those countries where a central reinsurance agency provides the supervisory authority with more effective means of carrying out a tariff policy. Thus, in Argentina, the supervisory authority was able to decide on a general increase in tariffs varying from 6 to 28 per cent, depending on the class of insurance. At the same time the decision was taken to do away with the recargos administrativos (additional premium to cover management costs), whose application was optional but which could amount to as much as 30 per cent of the premiums in some classes of insurance. It was decided at the same time that the rates of commission payable to intermediaries should be reduced so that the amounts which they receive are not increased in relation to those which they were receiving when the premiums had not yet been increased.
37. More or less substantial adjustments of tariffs to the real cost of insurance were also decided upon in a number of other countries. These changes often concern compulsory insurance - and in particular third-party motor vehicle

insurance, where State intervention in pricing is clearly essential. It is from this standpoint that tariff increases for this class of insurance were approved in Morocco among other countries, the rate of agents' commission, being reduced at the same time. 1/ It was not possible to take account in this report of all the negotiations which may have taken place during the period under review between supervisory authorities and insurance concerns - or national associations of underwriters - and may have had the effect of altering existing tariffs or of preventing tariff changes. Reference is therefore made here only to changes which were the subject of an official law or regulation.

38. Contractual relationships between insurance concerns and policy holders were also indirectly affected by the fact that insurance against certain categories of risk was made compulsory in some national laws. In Argentina, compulsory life insurance, providing compensation of 10,000 pesos (approximately US \$ 1,000) in case of death or permanent disability, was introduced in 1974. Employers will be liable to pay this compensation if they have not taken out insurance to cover it. Although this measure seems to fall in the social security field rather than in that of commercial insurance, the Argentine insurance market is affected by it because the risks may be covered on this market by the employers. In the Republic of Korea, a bill (it is not known if it has been passed) provides for compulsory fire insurance for a certain category of buildings. It is pointed out, in this connexion, that this law was made necessary because of the gravity of the catastrophes which occurred in 1972 and the number of losses not covered by insurance which they entailed. In Senegal the National Assembly passed a bill making motor vehicle insurance compulsory. It is in fact gradually being made compulsory in all countries, developed and developing alike. In Iraq, Act No. 25, promulgated in 1973, relating to the compulsory insurance of ships, concerns the insurance of river craft and in particular covers total losses and the costs of salvage and removal of wrecks. The authorities have sought by this means to facilitate the removal from waterways of obstacles to navigation. The concern which undertakes such removal operations thus knows that the costs involved are covered by insurance, whereas their payment previously depended on the shipowner's financial capacity.

39. The adoption of compulsory insurance for certain classes of risk has led some countries to modify the basic principles governing the market in which dealings in them take place. New Zealand is a case in point and, even if it is not a developing country, the importance of the event is such that it cannot be disregarded in this report.

1/ See Insurance Legislation and supervision in developing countries, op.cit., Part One, paragraph 11:

"Supervisory authorities should be urged to intervene effectively and to ensure that the premiums and the conditions of the policy were fair. In particular, they should prevent the costs of insurance from becoming excessive, mainly through the control of commissions on the sale of policies, which should be either abolished or reduced to a minimum. On the other hand, risk premiums should be constantly supervised and kept at an appropriate level, corresponding to the cost of claims."

40. Lastly, it is worth mentioning a certain category of risks whose possible consequences have led the authorities to take action with respect to the contracts concluded to cover them. These are earthquake risks. In Mexico, where their gravity and the economic and social consequences which they can produce, both for the insurance companies and for the victims, are well known, it has been stipulated that insurance concerns may only assume these risks only to the extent of 80 per cent of the value of the properties insured. In the event of a claim, an amount equivalent to 2 per cent of the sum insured will be deducted. The question of technical reserves for this category of insurance is referred to in paragraph 25.

(d) Laws and regulations concerning reinsurance

41. As far as reinsurance cessions which are transferred by insurance concerns to other companies are concerned, the impression which continues to prevail is that they are generally excessive in relation to the concerns' capacity to retain the risks for their own account or their possibilities of reinsuring on the national market. This impression confirms the analysis made in an UNCTAD study published in 1973, ^{1/} and it explains and justifies the action taken by the authorities in a few countries precisely to ensure more extensive use of the possibilities which the internal market affords for retention of risks covered there.

42. In some countries the establishment by the State of a reinsurance company has been decided on. It is to this company that insurers on the internal market must cede all or part of the risks they underwrite, as well as retention surpluses.

43. In the People's Republic of the Congo, the reorganization of the insurance industry, to which reference is made in paragraphs 3 and 4, called for compulsory reinsurance with the Société nationale d'assurances et réassurances of insurance and reinsurance amounting to some 25 per cent of total premiums. However, the fact that the private companies to which this provision applied have withdrawn from the market (paragraph 4) has made this measure inoperative.

44. In the Central African Republic, in January 1974, the State insurance and reinsurance concern (set up in 1972) found itself entrusted with the management of the compulsory cessions which must be made to it by all the concerns doing business on the national market, amounting to 10 per cent of their turnover.

45. In Algeria, all the reinsurance business of companies operating in the national market must be handled by a new company set up for this purpose pursuant to Ordinance No. 73-54 of 1 October 1973. It is worth mentioning the objectives of this new body, as set out in the ordinance. The latter states that the purpose of the Central Reinsurance Company is to undertake all kinds of reinsurance transactions in order to harmonize this sector with the country's general economic policy; to contribute to the development of the national insurance market by ensuring an increase in its retention capacity in accordance

^{1/} Reinsurance problems in developing countries: Study by the UNCTAD secretariat, document TD/B/C.106/Rev.1 (United Nations publication, Sales No. E.74.II.D.2.).

with the basic technical principles of reinsurance; to promote, within the framework of the country's basic policy, the development of trade and international co-operation, in order to achieve, through compensating flows, an equitable balance in the reinsurance field. It is also stipulated that the country's insurance organizations and the inter-company pools engaging in reinsurance transactions with foreign countries, shall cease to operate in this field to the benefit of the Central Reinsurance Company. These measures took effect as from 31 December 1973 (decree No. 74-50 of 31 January 1974).

46. This question of compulsory reinsurance cessions was, in a number of countries, the subject of changes in the rules which were in force at the beginning of the period under review. Thus in India compulsory cessions from the national market to the Central Insurance Corporation of India were fixed at the level of 20 per cent of the original premiums. This is part of an internal market reinsurance programme, which is reviewed regularly and which aims to increase to the maximum the retention of business in the country. Further objects of the programme are to obtain reciprocal business from abroad and the best possible terms for the surpluses which must be ceded abroad.

47. In Iran also the level of compulsory cessions which must be made to the Central Insurance Company of Iran is now fixed at 25 per cent of the original premiums.

48. In Argentina further classes of insurance have been added to those which must be ceded on a compulsory basis to INDER (the State reinsurance institution). In 1972 various types of construction all risks contracts were included in this régime and, since July 1973, the workman's compensation and non-occupational accident clauses are also reinsured on a compulsory basis. Furthermore, foreign insurers have been required as from April 1973 to cede to INDER a further 30 per cent of the risks covered in Argentina, which brings the total percentage of reinsurance to INDER to 60 per cent of the policies underwritten by these companies.

49. In other countries, the possibilities of internal retention have been stimulated by other means.

50. In Colombia, where in principle 60 per cent of the premiums in each class of insurance had to be retained in the country, the authorities have changed this percentage and fixed it at 90 per cent for life insurance (joint risks and group insurances) and at an extremely low level for risks of great magnitude which the ~~internal market is incapable of absorbing.~~ Commercial aviation risks are a case in point. In the Dominican Republic, although the matter is still under consideration, it is expected that the authorities will adopt measures intended to ensure that risks whose magnitude does not exceed the level of internal retention capacity are reinsured on the internal market.

51. In the Philippines all the non-life insurers were obliged in 1973 to reduce ~~their cessions to foreign reinsurers not established in the country~~ by 20 per cent or more as compared with the cessions made in 1972. They were also asked to restructure their reinsurance treaties having regard to certain levels of treaty limits and of reinsurance premiums for certain categories of business. New rules were laid down concerning life insurance retention limits; reinsurances in this sector ceded to reinsurers not established in the country are authorized only when they are drawn up on the basis of the risk premium (yearly renewable term plan), where only the sums at risk (amount of the policy less accumulated reserves) are taken into consideration. The insurance concerns

are required to have inserted in their reinsurance treaties a clause stipulating that foreign reinsurers must submit annually to the Philippine authorities a statement covering all the business which they are handling in the country.

52. The measures referred to above constitute a concrete example of a government's concern to encourage insurance companies to increase the retention of risks in the country, to the extent permitted by the local market's capacity, or to influence the companies' reinsurance policy along those lines. It is interesting to note that it is sometimes the insurance industry itself which asks the State to enforce decisions of this type. At all events that was what was done in Mexico by one life-insurance company. In a statement addressed to the President of the Republic and published in the press, ^{1/} this company requested him to promote the establishment of an official reinsurance organization which would be in a position to retain a very large volume of premiums in the country and thus avoid payments in foreign currencies, to establish a standard policy on cession and to obtain the best conditions possible for reinsurance.

53. In quite another sphere - since it involves attracting reinsurance business to the country rather than preventing excessive cessions outside the country - Panama is preparing new legislation which should encourage the establishment of reinsurance companies in its territory and the setting up in the country of a reinsurance centre which should attract a large volume of business, from other Latin American countries in particular. This bill, prepared pursuant to the Government's aim of making Panama an important financial centre, is reminiscent of similar efforts undertaken at Beirut (Lebanon). Measures to the same end have also been taken in Singapore, where, in April 1973, the Minister of Finance himself announced his Government's intention to encourage the establishment in the country of international reinsurers having a sound reputation.

54. Lastly, it is impossible to speak of governmental measures in the reinsurance field without referring to the steps which the developing countries have taken during the period under review to promote regional co-operation in this field and the exchange of risks within the region in order to reduce their dependence on countries outside it. This question is dealt with in greater detail in chapter III.

^{1/} Revista Mexicana de Seguros, Mexico, No. 306, 30 September 1973.

II. DEVELOPMENTS CONCERNING INSURANCE ENTERPRISES AND
INSURANCE OPERATIONS IN DEVELOPING COUNTRIES

55. In general, the development of insurance companies has come up against the difficulties which have traditionally hampered their expansion. In most cases, these difficulties are inherent in the very structure of the insurance market in developing countries, which lags far behind the new economic and social requirements. ^{1/} However, companies have also been affected by the specific economic problems of the period under review, particularly inflation. The increase in overhead costs brought about by inflation has had a very direct impact on companies' financial results. Because of continuously and rapidly rising prices, moreover, the nominal value of insurance quickly dwindles to much less than the actual value: premiums calculated on the basis of nominal value fail to keep pace with benefits, which are often computed on an actual value basis. Furthermore, the inevitable delay between the time when a loss is sustained and the time when compensation is paid involves a sizable increase in benefits in relation to reserves made up of a currency which has depreciated in value during the intervening period.

56. The industrialization and expansion of external trade achieved by some countries in 1973-1974, which could normally be expected to result in increased turnover for insurers, are processes which concentrate a substantial quantity of risks into a relatively short period of time. However, the insurance market in the developing countries is better equipped to deal with moderate and small risks spread over a large territorial area. The coverage of large industrial complexes, a highly "motorized" population and giant transport units far exceeds the financial capacity of the insurance companies in view of the likelihood of statistical discrepancies in the number and size of anticipated losses and precludes any attempt to assess risks accurately and to rate them accordingly, to assess losses, to suggest loss-prevention measures, etc. As a result of this situation, the increase in business volume generated by economic growth eludes domestic insurance companies and is channelled to the major international insurance and reinsurance centres.

57. The combination of these factors has produced some stagnation in the growth (in terms both of volume of business, financial strength and efficiency) of insurance companies in the developing countries. This stagnation is accompanied by a growing interest on the part of developed-country insurers in developing-country markets. While it is true that the difficulties mentioned above are not peculiar to the local companies in the latter countries, such companies are more directly vulnerable to these difficulties than are the large groups of insurers in the developed countries. During the period under review, these groups succeeded in recovering positions in the developing countries which had been lost during the 1960s. In other cases, however, developing-country initiatives have borne fruit and have proved as dynamic as circumstances and local possibilities permitted. The Government legislative action mentioned in chapter I has greatly encouraged this upsurge of activity and, above all, has paved the way for the development of new companies or a restructuring of the market.

^{1/} The structural defects of the insurance market in the developing countries are partially analysed in the UNCTAD study "Reinsurance problems in developing countries" (*ibid.*). See in particular Part Two, chapter I.

(a) Foreign insurance enterprises in developing countries

58. The efforts of foreign companies to penetrate into developing countries have been chiefly directed towards countries producing certain strategic raw materials. An exceptional economic situation is opening up extensive industrialization prospects in these countries, where the volume of premiums has already increased very substantially. In most cases, national interests have been partly associated with foreign interests: in Iran, a company has been set up with 35 per cent of its capital coming from the United States of America and the remainder from local entrepreneurs. Another company has been established with United Kingdom and United States interests each holding 10 per cent of its stock. Major industrial groups have put up 60 per cent of the share capital, and the remaining 20 per cent will be opened to public subscription. Moreover, an extremely well-known Lloyd's brokerage firm has acquired an interest in a newly established brokerage firm in Iran. It is very likely that foreign penetration into the national market has gone much further than these few instances reported in the insurance press.

59. Another characteristic example is Saudi Arabia, where western insurers have also arrived in force. The country's first insurance company was established in 1972, with a foreign capital investment of 40 per cent held by United Kingdom interests. The new company has been operating in Saudi Arabia since 1973, with branches in the Emirates of Bahrain and Qatar. A little later, a pool comprising the largest insurance companies in France under the control of the Assurances Générales de France was set up to operate in Saudi Arabia. In addition, the Insurance Company of North America has established a new commercial network which will enable it to expand its business in Saudi Arabia.

60. Certain statements made at the time when these developments occurred throw light on factors which facilitate and condition the penetration of developing countries by foreign insurance concerns. In the colonial era, such penetration was favoured by the metropolitan country's monopoly of the trade flows of those countries. Nowadays, the longer such a monopoly has persisted in the supply of capital goods and technology, the easier it is for an insurance company to penetrate the country concerned. Thus, the success of a foreign insurance concern in establishing itself in a developing country often results from constraints resulting from a situation of inferiority and economic dependence. This point would seem to be borne out by the examples mentioned above and also by those of companies with foreign participation established, among other countries, in Hong Kong and Swaziland. There is also sufficiently explicit evidence of the efforts made by powerful foreign banks to gain control of domestic insurance companies in Brazil. This situation can be further illustrated by the following text:

"While the establishment of branches has long been the traditional means for French [insurance] concerns to set up abroad, such subsidiaries are assuming increasing importance as States, particularly those which have most recently acceded to independence, promote - and sometimes demand - the formation of local companies established under local law; this is the case, for instance, in Africa where French concerns currently have 21 subsidiaries, most of them recently set up. As a result, subsidiaries abroad took in 1,200 million francs in 1972, or 38.5 per cent of the companies' total receipts. In addition, some major groups have signed co-operation agreements with foreign companies. Establishment in foreign countries enables French companies to underwrite legal risks on the same footing as indigenous companies; it also enables them to participate in and

extend the range of French external trade in imports and exports through the coverage of transport risks and of the various other risks of French companies engaging in industrial activity (construction projects, factories, etc.) or commercial activity abroad." 1/

61. The formation of domestic companies with foreign participation is, however, an advance over the previous situation in which foreign companies shared among themselves all or almost all the domestic market in developing countries. In the United Republic of Cameroon, for instance, three leading French insurance companies, acting in association with reinsurers from Switzerland and the Federal Republic of Germany, set up the Société Nationale du Cameroun (SOCAR) in 1973 in conjunction with Cameroonian interests, which hold 55 per cent of the share capital of the new company. In the view of the Cameroonian authorities, this development has the effect of bringing under the control of a Cameroonian company much of the business formerly handled by the foreign companies participating in the establishment of SOCAR-business which formed the bulk of insurance transactions in the country. A virtually identical process has taken place, inter alia, in Gabon, Senegal and the Upper Volta.

62. There is, however, one general point related to foreign participation in domestic companies which it seems essential to mention: the fact that the host countries have a majority stock-holding does not mean that they effectively control the technical and financial management of such concerns. As was suggested earlier, this development is probably merely a way of adapting to changed circumstances the domination formerly exercised by foreign insurers during the colonial era. Whatever the motives of foreign companies in associating with domestic interests, however, the developing countries approach such association projects from two different angles, according to their national circumstances: in some cases, such an association is regarded as beneficial to national interests, inasmuch as foreign technology and capital complement inadequate domestic capacity in the insurance sector or, as was indicated earlier, such associations constitute an advance over an insurance market that previously had been exclusively foreign. Where, however, domestic potential could be strengthened if there were less intensive competition from foreign companies, the countries concerned rightly regard such competition as a brake on their expansion - hence the Government measures and restrictions on the establishment of foreign companies which are mentioned in paragraphs 2 to 7. Of course, either of these approaches hinges upon the particular circumstances of the market, which can vary considerably from country to country.

63. During the period under review the expansion of foreign insurance companies in the developing countries has also been effected by illegal means, as is indicated in paragraph 14. These involve a flagrant violation of the laws and regulations in force in almost all developing countries, which prohibit and penalize the conclusion of insurance contracts with companies which have not been expressly authorized by the national authorities. This illicit business is seemingly so widespread that in 1974 a large United Kingdom insurance company published a "Brokers Manual on Life Insurance for Foreign Residents" designed to increase the number of such transactions. While it

1/ François Loheac (Director for International Affairs of the Fédération Française des Sociétés d'assurance), "Implantation de l'assurance française à l'étranger", L'Argus, Paris, 31 January 1975.

is true that the efforts of the United Kingdom company concerned are directed mainly towards the industrialized countries, where the greatest amount of business is to be found, it is nevertheless the developing countries that are relatively most severely affected by such a business expansion policy on the part of the major international insurers. At a Round Table arranged by UNCTAD in December 1974, ^{1/} the Latin American Insurance Supervisors acknowledged that this problem was very widespread in their countries. They stated the problem in the following terms:

"Several supervisors complained that unauthorized foreign insurers were operating illegally in their countries. This problem was considered to be very widespread. Among the reasons advanced to explain the success of such illicit operations, mention was made of the following: (1) the lower rates which foreign companies were able to offer, partly because they were not obliged to conform with the standards laid down by the supervisory authorities and partly because the claims service was deficient or non-existent; (2) the desire of nationals of the countries concerned to use life insurance as a means of accumulating capital in foreign currencies; and (3) the lack of confidence in local markets. The various types of illicit insurance transactions being effected throughout Latin America included fraudulent sales by ghost companies. There was also the problem of agents who sell insurance for unauthorized foreign companies, a problem which seemed to be particularly serious in countries bordering upon a developed country or developed political zones."

64. The case reported in a Spanish insurance periodical ^{2/} tends to show that the problem referred to by the competent Latin American authorities (and, more particularly, the problem resulting from the sharing of borders with developed countries or their political zones) is not confined to a single geographical region. In an extremely well documented study, this publication reports on the activities of agents of foreign companies operating from the United States military base at Torrejón, near Madrid. It is easy to imagine the damage inflicted by such concerns on companies legally established in the country and hence bound by a number of obligations and responsibilities which illicit operations escape.

65. The establishment of new foreign companies in quite a number of developing countries has sometimes been designed to meet very specific objectives. These are generally companies known as "captives" or "off-shores", whose activities in the country concerned are not basically directed towards covering local risks, even though such risks may occasionally be handled by them. These are subsidiaries of multinational insurance companies whose main object is to obtain the tax advantages offered by certain developing countries, advantages which they do not enjoy in their countries of origin. Another type of company is the subsidiary set up by a multinational financial or industrial group and used to provide over-all coverage of the group's risks. During the two years under review, the trend towards the establishment of such companies has continued. They appear to have produced extensive distortions in the local insurance market and their control appears to have posed considerable difficulties to the national authorities. Some countries in the Caribbean region have been particularly seriously affected.

^{1/} See paragraphs 88 and 90.

^{2/} Actualidad Aseguradora, Madrid, cited in Cambio 16, Madrid, 24 February, 1975.

66. The association of domestic and foreign interests in the establishment of new companies has not involved only co-operation between developed and developing countries. In Bahrain, for instance, a new company has been set up with the financial and technical participation of Iraq.

67. The foreign domination of a market, to which some developing countries are still subject, is not always a static phenomenon. In Burundi, for instance, there has been an extraordinary movement of disengagement involving the three United Kingdom companies and one French company which had previously constituted the local market, while new companies (two French and one American) were in the process of recapturing that market at the end of the period under review. However, it is generally domestic insurance concerns that enter the market following the withdrawal of foreign insurers. In Malaysia, for instance, seven foreign companies withdrew from the market and two domestic companies entered it during 1973 alone.

(h) Public-sector insurance enterprises and their operations

68. In chapter I, paragraphs 2 and 3, reference was made to the legislative action taken in the Islamic Republic of Mauritania and the People's Republic of the Congo to create a legal framework for the companies set up on the initiative of the State. Whether de facto or de jure, such companies have the market to themselves. In these two countries, new companies have been set up and insurance operations have already begun. The fact that these are countries where the volume of business is relatively low enables the new companies to begin with a relatively simple structure and a paid-up capital which does not impose a serious financial strain on the Governments concerned. Obtaining qualified staff to run these companies is perhaps the most difficult problem.

69. In addition to the companies in the two countries mentioned above, other bodies have also been set up during the period under review with State participation of varying degrees of directness. In Algeria, the Compagnie Centrale de Réassurances mentioned in paragraph 45, which has the monopoly of reinsurance business in the country, has been provided with statutes stipulating, inter alia, that it is a public institution of an industrial and commercial nature endowed with an establishment fund (which apparently takes the place of registered capital). The statutes also lay down rules for the internal administration of the company, the auditing of its accounts by an auditor appointed by the Ministry of Finance, the formation of the various reserves and the allocation of profits. In Dahomey, the statutes of the national insurance and reinsurance company were approved in 1974. In the Gambia the Gambian Insurance Company, which operates under the auspices of the Government-controlled Gambia Commercial and Development Bank, has been set up. It is interesting to note that the technical assistance needed to establish this company was provided directly by another developing country (Ghana). In Pakistan, in July 1973, the Federal Government established the National Insurance Fund to insure property belonging to the Government or to semi-public enterprises, including industries and institutions in which the Government holds a financial interest or which are directly or indirectly controlled by the Government. The new company is also responsible for insuring cotton and rice exports. In the Central African Republic, the Entreprise d'Etat d'Assurances et de Réassurances (SIRIRI), which was formed in 1972 and licensed in 1973, commenced operations in January 1974. The company's share capital of 100 million CFA francs was subscribed in its entirety by the State (see paragraph 44 for the activities of this company in the area of obligatory reinsurance). In Kenya, the Government, acting in co-operation with domestic insurance companies, has established a motor-vehicle insurance pool which should enable motor-vehicle owners to obtain insurance at reasonable cost. For the time being, the pool is insuring only high-risk vehicles. It is proposed to expand the scope of its activities after an initial trial period.

70. With regard to insurance projects in the planning stage, the Ministry of External and Internal Trade of Sri Lanka made a proposal in 1973 to establish an insurance concern in co-operation with the co-operatives sector. This new company would operate in Sri Lanka in competition with the sole existing insurance concern, which is State-owned. In Chad, the Government also has plans to establish a domestic company.

71. Two countries have carried out a complete reorganization of the public sector in the insurance field. In Yugoslavia, pending the legislative and structural reforms referred to in paragraph 5, the former two associations of insurance concerns have been merged. The new Yugoslav Association of Insurance Organizations now represents the whole of the national market (eight companies). In India, the market reorganization process initiated during the preceding period was completed in 1974. Apart from the General Insurance Corporation of India, there are currently only four Indian companies in the country. The Corporation transacts direct business only in the branches of aviation and agricultural risks, on an experimental basis. It also receives cessions of obligatory reinsurance (a 20 per cent share) from direct companies operating in the country.

72. The General Insurance Corporation of India has also been given responsibility for dealing with the delicate question of the compensation payable to foreign companies whose business in India was nationalized in 1972. A final settlement appears to have been reached. In this connexion, it may be noted that in Pakistan, too, the Government has decided to pay compensation to life insurance companies whose business has been nationalized. It appears that this compensation will be equivalent to the initial investment of those companies in Pakistan. With regard to State participation in insurance concerns in Morocco, see paragraph 6.

73. In other countries, the public sector has been given further encouragement. This is at any rate true of Argentina, where the State-owned company Caja Nacional de Ahorro y Seguro has become the most rapidly expanding insurance concern in the country, and where the Instituto Nacional de Reaseguros has extended its activities to classes it had not previously covered. The proportion of reinsurance business which foreign companies are obliged to cede to it has also been increased (see paragraph 48). However, despite the size of the Argentine market, the volume of business transacted and the intervention of a State reinsurance concern, some types of business continue to elude national control. An example is engineering insurance, all of which is in practice placed in the Federal Republic of Germany. Similar comments could apply in greater degree to almost all developing countries.

(c) Private-sector insurance enterprises and their operations

74. The available information on structural and operational changes in the private sector in the developing countries is even more incomplete and fragmentary than that on the other topics dealt with in this study. Company developments are usually publicized only when they are positive. Details of particular operations and the development of particular classes are issued only with a precise object in view; for instance, to draw the attention of the public authorities to the need to authorize increases in rates or for purely publicity purposes, which leave important aspects of such companies' activities obscure. The methods used by the supervisory authorities to compile statistical data lack the necessary uniformity and homogeneity. ^{1/}

^{1/} In this connexion, it is regrettable that the basic features of the insurance statistics system recommended by UNCTAD have not attracted greater attention in the developing countries. See document TD/B/C.3/85/Rev.1: "Establishment of a unified international system of insurance statistics" (United Nations publication, Sales No. 72.II.D).

Relations between domestic insurance companies in the private sector and bodies not engaged in the same activities or foreign interests are seldom brought out. In the circumstances, it is difficult, if not impossible, to make a general survey of developments in 1973-1974 with regard to private-sector insurance and its results in the developing countries. It was therefore necessary to confine examination of that subject to what little material was available, when a systematic compilation of more general relevance would have been desirable. This is an objective to be pursued in future studies.

75. However, despite these unavoidable shortcomings, it does seem important to emphasize certain isolated developments which may be of general interest. In some cases, there is a clear link between such developments and legislative measures and other economic development factors.

76. Brazil appears to offer a good example of a market which experienced sharp growth during the period under review, at a time when it was being restructured. At constant prices, annual premiums for 1974 were 21.8 per cent up on premiums for 1973. A similar average rate of growth has been recorded for the past five years. Commenting on these figures, the Instituto de Resseguros do Brasil stated: 1/ "This high rate of growth is basically due to three factors: the high level of national economic and social development; the Government's sectoral policy, which is pursued with the flexibility that is essential to the dynamic creation of the supporting mechanisms called for by the rapid development of the market; and the capacity of insurance companies to respond to the stimuli and opportunities offered to them. The growth of Brazil's insurance industry in 1974 is especially significant, not only because the real rate of growth was high but also, and above all, because growth occurred despite the internal effects of the international crisis during this period." The obligation imposed on importers to take out transport insurance with local companies clearly contributed to the expansion of the insurance market: the premiums for this branch, which in 1970 (index 100) had amounted to 27.9 million cruzeiros, 149 million cruzeiros (534 per cent) in 1972 and 177 million cruzeiros (634 per cent) in 1973. At constant prices, the average annual geometric growth between 1969 and 1974 was 34.5 per cent. It is reported that during the past five years, company assets have expanded at an average annual rate of 17.6 per cent, at constant prices. The amalgamation incentives 2/ granted by the State to insurance concerns have so far led to a drastic decline in the number of companies on the market, which fell from 184 in 1972 to 101 in 1974. The growth of both the companies' financial resources and their volume of business has led to a real growth in their retention capacity. Between 1969 and 1974, this capacity expanded by a factor of 3.63, in the case of direct business, and by a factor of 6.4, in the case of retrocessions.

77. The increase or decline in the number of private companies is of no particular significance per se, unless considered in terms of its positive or negative impact on national development. It does not therefore appear necessary to set out all the information available on this subject. However, the developments which have occurred in the four countries referred to below are for one reason or another distinctly interesting.

1/ Relatório Anual do IRB for 1974.

2/ These incentives were analysed in "Reinsurance problems in developing countries", ibid., Part Two, chapter II.

78. In the Republic of El Salvador, a domestic company has been established the promoters of which were previously representatives of a foreign company, while another domestic company has been set up with 80 per cent of its capital supplied by foreign sources and, in 1973 alone, six agencies of foreign companies and one agency of a United Kingdom brokerage firm withdrew from the market. Finally, companies are taking an increasing amount of their business to a private reinsurance company set up in Guatemala in 1968, in which three Salvadorian companies hold stock. The reinsurance company concerned is endeavouring to increase retention capacity in the central American region and, to that end, to promote the exchange of reinsurance cessions among countries of the region. Extensive changes have occurred in the structure of the market in Morocco as a result of the Government measures referred to in chapter I, paragraph 5. The market is now composed of 23 companies (17 local Moroccan companies and six agencies of foreign concerns, whose "Moroccanization" or transfer to other Moroccan companies is currently under negotiation). Moroccan holdings in the share capital of these concerns are the result of purchases by the State, through the Société Nationale d'Investissements, or by private Moroccan groups. The scale of the change which has occurred is brought out by the fact that in 1964 the market was divided between 121 companies - 18 Moroccan, 63 French and 40 of other nationalities.

79. The reverse seems to have occurred in Nigeria, where the development of new economic resources has led to the establishment of a large number of insurance companies. This proliferation of companies has often been at the expense of financial soundness, a fact which has had repercussions on the entire insurance sector. However, there is good reason to believe that the Government, on the one hand, and a group of companies centred around the Nigerian Insurance Association, on the other hand, will soon succeed in overcoming the distortions of a chaotic market. The adoption of a new insurance law (see paragraph 18) and a code of professional ethics which the Association is currently preparing should shortly have beneficial effects. In Singapore, the establishment of a national reinsurance company was seen as an important development.

(d) Other developments likely to stimulate the national insurance market in developing countries

80. The quality of the insurance services provided to the national community and the contribution of the insurance industry to the national economy depend largely upon the existence within a country of skilled human resources - in other words, capable employees, technicians and agents. The slowness with which this industry has developed is largely due to the lack of such resources. The effectiveness of insurance supervisory services could also be increased if they could draw on more highly developed professional skills. Furthermore, the frequently high loss ratio not only hampers economic growth but is an additional obstacle to the development of the insurance industry. This factor tends to have repercussions on premiums and, as a result, on the demand for insurance, while certain loss-prevention or risk-management measures, which could substantially reduce risks, are not pursued with sufficient vigour. For these reasons, activities in the fields of vocational training and loss prevention are being viewed with increasing interest by certain countries. In the following paragraphs, an attempt will be made to bring out the achievements of the developing countries in these fields during the two years under review (or at any rate those achievements which have been publicized).

81. With regard to vocational instruction and training, the following developments have occurred. In Algeria, the examination for the professional competency certificate and the attestation of aptitude to practice insurance has been reorganized. The curriculum has been expanded considerably and brought up to an impressive level of

professional knowledge. In the Bahamas, the insurance supervisory authorities have made special efforts to raise the technical standard of professional workers in the insurance field. The Registrar of Insurance has prepared a handbook entitled "Questions and answers for examination". In Colombia, the supervisory authorities have concluded an agreement with the Escuela de Administración pública for the vocational training of officials responsible for company supervision and have prepared internal vocational training courses while the Asociación Colombiana de Compañías de Seguros has been holding talks with the Servicio nacional de aprendizaje with a view to the joint preparation of national programmes of instruction in insurance. In the Republic of El Salvador, the National University has introduced a course in insurance accounting. In India, the Federation of Insurance Institutes has arranged a special programme which is open not only to Indian students but also to nationals of countries members of the Colombo Plan and of the SCAAP Plan. Special teacher-training courses have also been organized. In Iraq, the State Insurance Organization has continued to train technical personnel and has helped in the introduction of a higher diploma of insurance, awarded by the University of Baghdad. The Academy of Sciences has added actuarial mathematics to its curriculum. In Libya, officials and fellowship-holders have been sent abroad (mostly to Egypt) to take courses in insurance supervision and operations. In addition, local companies organize symposia and seminars for their employees. Negotiations are being conducted with a view to including insurance instruction in the curricula of advanced schools of commerce.

82. In the Philippines, a private, non-profit-making corporation, the Asian Institute of Insurance, has been established to provide instruction, develop techniques and promote research in the field of insurance practice in the Philippines and other Asian countries. A number of projects have been drawn up, including a course in modern teaching techniques for managers of insurance concerns called upon to give lectures organized by the Institute and a course on life and non-life insurance given by leading experts of major insurance companies. Similar developments have occurred in Singapore, where a vocational training centre (the Singapore Insurance Training Center) was established in 1974 with the financial support of a number of local insurance associations. The activities of this Center are basically directed towards preparing students for the examinations of the Chartered Insurance Institute of London and the Australian Insurance Institute. Other educational activities are also planned. It is intended that the Center should also be used by students from other countries, particularly countries members of ASEAN. Sri Lanka has organized insurance courses in the local language (Sinhala) for students who experience difficulties in English and are consequently unable to sit the examinations of educational institutions which work in English.

83. In some other developing countries, efforts are being made by the State or, more frequently, by private insurance concerns, to promote vocational training. Exchanges of students between those countries are not uncommon. The aim of such exchanges is to help to round off training. Also during the period under review, a number of French-speaking countries in Africa organized courses of instruction co-ordinated by the Institut International des Assurances at Yaoundé (see paragraph 98). Most of these courses were designed to standardize the level of knowledge of candidates for the advanced instruction provided by the Institut at the regional level.

84. Developing-country initiatives to promote loss-prevention schemes have been few in number or, at any rate, little publicized. However, some countries have shown that national measures to reduce the number and size of losses are feasible and relatively easy to apply. The effectiveness and value of such measures concern primarily the insurance sector. In the more or less distant future, however, these measures will inevitably have marked repercussions on the national economy as a whole.

85. Loss-prevention measures generally involve close co-operation between insurance supervisory authorities, insurance concerns and other sectors (port authorities, police, etc.). Precisely because there are so few projects of this type, it seems worthwhile to enumerate them. In Egypt, the Cargo Supervision and Surveying Office, established in 1967, has been restructured to give it greater autonomy and increased responsibilities. These responsibilities include the analysis, prevention and reduction of shipping losses in Egyptian ports. The new Government measures should enable these functions to be discharged more effectively. A seminar was held at Baghdad (Iraq) in 1973 on loss prevention in marine cargo insurance, under the auspices of the State Insurance Organization and within the framework of the General Arab Insurance Federation. The seminar made a number of important recommendations. In the Republic of Korea the bill mentioned in paragraph 38 provides for the establishment of a "Korean Fire Protection Association", whose activities would be financed by local insurance concerns. The costs of these activities would be passed on in the form of increased premiums. The objectives of the Association include inspection of facilities for fire prevention and control; research and the formulation of recommendations in this field; the granting of loans to building owners to improve their fire control equipment; and financial participation in the production of such equipment.

III. DEVELOPMENTS IN THE FIELD OF CO-OPERATION AMONG DEVELOPING COUNTRIES

86. During the period under review, there was fairly intensive co-operation among developing countries, particularly at the regional and subregional levels. Some of the projects formulated during previous periods have begun to bear fruit, while a number of new projects have been initiated. Through regional co-operation, certain traditional concepts have gradually come to be challenged - for instance, the notion that the flow of ideas, technology and business across national frontiers must necessarily proceed in a north-south direction. Co-operation has brought about an increasing awareness of the collective potential of the developing countries and the fact that that potential is greater than the sum of individual national potentials. During the period under review, the United Nations has encouraged the efforts of the developing countries in this regard. At its sixth special session, held in 1974, the General Assembly adopted a Declaration on the Establishment of a New International Economic Order which calls, inter alia, for the strengthening of national insurance markets in the developing countries and co-operation among those countries in the insurance sector.

(a) Intergovernmental co-operation with a view to strengthening national markets and developing new approaches in the insurance sector

87. Co-operation among developing countries is first and foremost a matter for the national authorities responsible for insurance policy in each of those countries. The regional meetings of insurance supervisors held in 1973 in Africa and in 1974 in Latin America (for the Spanish- and Portuguese-speaking countries of that region) sought to lay the bases for such co-operation. These meetings (Round Tables) were organized on the basis of the same principles and machinery as were applied to arrange a similar project in the Asian region in July 1972.^{1/} The two Round Tables referred to here, like the Round Table of 1972, were held under the auspices of UNCTAD, acting in co-operation with the United Nations regional economic commissions concerned. The Round Table held in Africa was financed by SIDA and the Latin American Round Table by UNDP.

88. The participants in the two meetings reviewed the major problems involved in ensuring effective supervision of insurance concerns and operations. In both cases, the role of the authorities was viewed as extending beyond supervision of the financial position of enterprises. The restrictive concept of supervision is still applied in a number of developing countries, but it is tending to be replaced by a broader approach, which was defined by the Addis Ababa Round Table as follows: "The scope and purpose of insurance supervision in a developing country is the establishment in the country of a sound national insurance market, providing adequate cover of risks at fair prices, contributing to the economic and social development of the country and reducing the outflow of foreign exchange due to insurance and reinsurance treatment". The meeting of Latin American insurance supervisors adopted an identical text, but added that domestic insurance companies should play a preponderant role in the composition of the national market. The two Round Tables also reviewed practical arrangements for exercising supervision, and a large number of particularly

^{1/} The report on this Round Table Meeting is contained in document TD/B/C.3/L.90. This meeting was also mentioned in the review for 1971-1972 (TD/B/C.3/107, para. 41).

interesting ideas and experiences were exchanged on such matters as conditions for the admission of new companies to the market, financial guarantees to be provided, supervision of policies and rates and monitoring of reinsurance treaties.

89. The participants in these Round Tables adopted resolutions requesting the establishment of associations of insurance supervisors in the African and Latin American regions. The aim of these resolutions is to ensure a follow up to the very positive results of the meetings and to create an institutional basis for co-operation which has got off to an auspicious start. As was stated at Addis Ababa:

"... the various subjects which had been discussed at the meeting highlighted many fundamental objectives of insurance supervision and many important problems which were common to most of the countries of the region, for which the solutions were still pending and which required thorough analysis. Moreover, some of these problems tended to aggravate and evolve rapidly along with economic and social changes which were taking place in the countries concerned, in particular as the insurance industry was increasingly called upon to cover complex risks and to contribute more substantially to the financing of new economic projects and to curtailing the outflow of foreign exchange. All these factors brought to light the necessity for the supervisory authorities to undergo constantly a dynamic revision and adaptation of their methods and approach to the ever-changing insurance market conditions. This, in turn, called for regional co-operation among the insurance controllers of Africa, not only because many of the problems were common and the respective experience and achievements of each supervisory authority might prove of outstanding interest to the others, but also because concerted efforts were increasingly required when dealing with a number of regional projects. Against this background a broad agreement emerged as regards the need to set up an institutional framework within which co-operation of the insurance supervisory authorities of Africa could develop on a regular basis."

90. The specific aims of the Association of Insurance Supervisors which the Latin American authorities are endeavouring to promote are to consider topics such as the following: (1) reinsurance, with a view to promoting a greater exchange of business within the Latin American region, and, as a result, greater retention capacity at the regional level and a decline in the dependence on foreign markets in the reinsurance field; (2) the monitoring of illicit insurance operations and the activities of international insurers and reinsurers; (3) the problems involved in goods transport insurance in respect of trade both within and outside the region; (4) the promotion of regional or subregional systems and models in the field of insurance training; (5) the harmonization of statistics and systems for the preparation of rate schedules and mortality tables.

91. The Caribbean Conference on Insurance Supervision (Port-of-Spain, Trinidad and Tobago, March 1974) also attempted to establish co-operation between national authorities responsible for insurance supervision. The similarities between this Conference and the Round Tables mentioned above were such that the Conference adopted a text on the scope and purpose of insurance supervision identical to that adopted by the Round Tables. The Conference also made plans for the establishment of institutional machinery designed to ensure continuous co-operation between the participating countries.

92. In the Asian region, where co-operation among insurance commissioners is of long standing, ^{1/} the Asian Association of Insurance Commissioners held a meeting at Djakarta in September 1974 as part of the Seventh General Conference of the East Asian Insurance Congress. Of particular interest was the decision to compile basic statistical data to be used in establishing national and regional mortality tables.

93. The supervisory authorities of most of the French-speaking African countries have continued to co-operate within the framework of the International Conference of African, French and Malagasy States on Insurance Supervision (CICA). This organization underwent an important structural change in November 1973, when a new convention was signed recording the withdrawal from the organization of the French Republic. However, this country is continuing to furnish assistance, particularly of a technical and financial nature; CICA and France signed a co-operation agreement to this effect on 26 September 1974. CICA has thus become a purely African organization, and its invitation to other States of the region to become members will make it even more representative of African interests.

94. The structural change referred to above has also added to the responsibilities of national insurance supervisory services for overseeing the insurance concerns of individual countries, to the detriment of the previously prevailing concept, which placed the major emphasis on the exercise of overall supervision of the solvency of enterprises operating in one or more member States. CICA has also extended its activities to instruction and vocational training in insurance (see paragraph 98 below) and to operational fields (see paragraph 102). In other areas, CICA's efforts to promote and encourage life insurance in member countries and, to that end, to prepare joint mortality tables are worthy of emphasis. Also worth noting is the establishment of certain joint mechanisms, an example being consideration of the question of introducing an insurance "green card" to facilitate exchanges and tourism among the member countries.

95. CICA's study of solutions to common problems and its search for a common African identity also led it to convene a meeting of local African companies in member countries. This meeting was held at Dakar (Senegal) in October 1974. The main subjects discussed were the structure of local African companies and their relations with the public authorities, professional relations between local companies, vocational training and public information.

96. Co-operation among developing countries is becoming increasingly apparent in the joint search for regional solutions in the field of vocational education and training. This matter was dealt with in the following resolution adopted by the participants in the Round Table Meeting of African Insurance Controllers referred to in paragraphs 87 to 89:

"The participants at the Round Table Meeting of African Insurance Controllers

"Recognizing that there is a great need for trained insurance personnel in Africa, both for the supervisory services and for the insurance industry,

^{1/} For the background to the Association, see document TD/B/C.3/99, paras. 65-67.

"Recommend:

1. That the UNCTAD secretariat, in co-operation with the Economic Commission for Africa, embark immediately on an extensive programme of insurance training;
2. That the different means and existing facilities to carry out this training programme successfully be investigated, including the use of existing, and the creation of new, regional and subregional training centres in various parts of Africa, taking into consideration such factors as geographical convenience and language."

97. The Round Table of Latin American Insurance Supervisors shared the interest shown in this subject by other regions and expressed the hope that there would be exchanges of staff of supervisory bodies and companies among the various countries of the regions. It was felt that those countries which were most seriously affected by the shortage of trained personnel could take advantage of the vocational training opportunities offered by other countries possessing greater human and technical resources. The UNCTAD secretariat was requested to provide assistance in establishing machinery to facilitate exchanges and other training arrangements.

98. The authorities of other countries have already taken specific action. For instance, the African countries members of CICA have promoted and established the Institut International des Assurances, which is already functioning at Yaoundé (United Republic of Cameroon). The institute has been assured of technical and financial assistance from France and financial assistance from UNDP.

99. The developing countries have shown increasing interest in the search for new approaches in the field of reinsurance and in the possibilities of mutual co-operation in that area. The existence of a healthy and sound insurance market requires that companies on the local market can in turn take out insurance cover for risks which exceed their retention capacity. Firstly, the conditions of such reinsurance need to be less costly and better suited to real needs than they have generally been hitherto. Even more important is the need to achieve an increase in the retention capacity of the companies and of the national market as a whole and a corresponding decline in the current overall demand for reinsurance. Finally, the problems and costs involved in taking out reinsurance abroad require that risks should in the first instance be transferred to other institutions of the region and that reinsurance elsewhere should be taken out only when the regional potential is exhausted.

100. These questions were considered by the Committee on Invisibles and Financing Related to Trade at its sixth session (3-13 July 1973). The secretariat had submitted to the Committee a study 1/ on the basis of which the Committee adopted a resolution, 2/ in which the Committee, inter alia,

1/ "Reinsurance problems in developing countries", ibid.

2/ The full text of this resolution will be found in the Committee's report (TD/B/464 - TD/B/C.3/117, annex I, resolution 7(VI)).

"2. Invites developing countries to consider the adoption of such of the measures suggested in the study as may be appropriate in their individual circumstances, having regard to the advantages and disadvantages pointed out in the study, namely:

- (a) A structural development of their national insurance markets allowing for a higher retention capacity of their domestic insurance industry, including the establishment, where appropriate, of national reinsurance institutions or pools, private or State-owned;
- (b) An increase in regional and sub-regional co-operation of developing countries in the field of reinsurance, including the creation of regional or subregional reinsurance institutions and pools, taking into account all relevant characteristics of reinsurance and technical requirements of reinsurance risks involved".

101. In the Asian region, the co-operation recommended by UNCTAD took the specific form of a plan to establish a regional company to be known as the Asian Reinsurance Corporation. The idea of establishing such a corporation was approved in principle at a meeting held at Bangkok (Thailand) in October 1974. This meeting was organized by UNCTAD with the participation of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). The meeting was attended by insurance supervisors and insurance company management from 18 countries of the region. The discussion focused on the conditions of reinsurance transactions in the region; current achievements with regard to regional co-operation in reinsurance; and future prospects for such co-operation. One of the conclusions of the meeting was that the existence of a regional institution would make for a more widespread distribution of reinsurance business in the region and that such a distribution would reduce the transfer of business to international reinsurance centres, to the benefit of each of the countries concerned and Asia as a whole. A preparatory committee was appointed to make a feasibility study on the establishment of the Asian Reinsurance Corporation.

102. In Africa, the plan to establish an African Insurance and Reinsurance Corporation which the African Development Bank had been studying for some years, was reviewed by a group of experts which met in March 1974 at Abidjan (Ivory Coast). The group examined the various aspects of the project and established its financial implications. A co-ordinating committee was set up to continue negotiations with the countries concerned. In addition, a time-table for implementation of the project was worked out. Also in the African region, the Groupement Africain et Malgache de Réassurance was set up by the Conférence Internationale des Contrôles d'Assurances (CICA) with effect from 1 January 1974. This is a "body for co-ordinating and directing reinsurance activities, comprising the supervisory authorities, professional institutions and specialized reinsurance pools of the member States". It is responsible for ensuring effective co-ordination among the parties concerned; carrying out studies and surveys; collecting various types of information and statistics on reinsurance; examining proposals for action to be taken by reinsurance pools with a view to improving their management and expanding their activities; facilitating the discussion of any matters and the solution of all problems with which the States members of CICA may have to deal in the field of reinsurance and promoting measures conducive to the expansion of reinsurance in the States members of CICA.

103. In Latin America, reinsurance problems were dealt with at the Round Table of insurance commissioners. As was mentioned in paragraph 90, one of the aims of the Association of Insurance Supervisors whose establishment was proposed by the participants in the Round Table was to promote an increased volume of reinsurance business within the region, thereby reducing the current dependence of national markets on reinsurance abroad. A Latin American intergovernmental meeting held at Mar del Plata (Argentina) in October 1974 reached a similar conclusion. ^{1/} This meeting, which was convened by the Economic Commission for Latin America, showed great interest in the establishment of machinery for negotiating reinsurance abroad for the Latin American region as a whole. This mechanism should also serve to create a flow of reinsurance from abroad to the companies of the region. (The question was to be discussed further by a group of experts convened by ECLA in Mexico City in January 1975).

104. There was also co-operation among developing countries in connexion with a number of bilateral projects: Indonesia and Pakistan are associated in a plan for economic and cultural co-operation which has begun to have a positive impact on the exchange of business and information between insurance companies in the two countries. This has resulted in the establishment of a reinsurance pool. Iraq and Syria have decided to pool insurance for their respective airlines. In 1973 Algeria and China signed an agreement under which the insurance concerns of each country will insure the carriage of goods exchanged between the two countries up to 50 per cent of the value of such trade.

(b) Regional and subregional co-operation among insurance markets of developing countries

105. At the regional and subregional level, insurance concerns and institutions have been fairly active in seeking solutions to common problems and exchanging experience. The necessary framework for such co-operation has often been provided by federations of insurance concerns in the various countries of a region, either on an individual basis or through national associations of insurers. Not only have such federations, or other similar but more informal organizations, been active during the period under review but efforts have been made to establish new institutions where none previously existed.

106. The Caribbean Insurance Conference, held at Kingston, Jamaica, in October 1974, was organized by insurers in the Caribbean region (including companies, agents and brokers). Its objectives were to further co-operation between all parties having an interest in the insurance industry and to broaden the scope of their activities. The reasons which induced the parties to meet and the problems justifying their co-operation project may be illustrated by the list of some of the subjects discussed: consideration of the insurance legislation of countries of the region; problems relating to reinsurance capacity and the need for a pool; inflation and motor-vehicle insurance; prospects for the development of shipping insurance; problems relating to the establishment and capital formation of life insurance companies; insurance personnel; insurance in an area subject to the risk of natural disasters; etc. The Conference resulted in the establishment of a Caribbean Insurance Association. Committees were set up to consider problems relating to reinsurance, vocational training and statistics.

^{1/} First Latin American Preparatory Meeting on the Convention on International Multimodal Transport.

107. Advantage was taken of plenary meetings of regional or subregional federations to discuss subjects not fundamentally different from those with which the Caribbean insurers have been concerned. Apart from the topics formally placed on their agenda these meetings are specially useful in that they meet the industry's need to foster a common approach, make comparisons with experience elsewhere and defend its interest in a broader framework than national organizations can offer. In addition, of course international insurers, reinsurers and brokers derive considerable benefit from these meetings, which provide an ideal opportunity for a broad-ranging "marketing" drive to establish contact with potential customers.

108. The objective of ensuring the corporate defence of interests is very marked in the case of the Federación Interamericana de Empresas de Seguros (FIDES), previously known as the "Conferencia Hemisférica de Seguros", ^{1/} whose members are private insurers in the Latin American region. A major aspect of its activities is advocacy of the concept of private enterprise. In some respects, however, its activities go far beyond these objectives. At the fourteenth General Assembly (Buenos Aires, November 1973), the agenda included such diverse subjects as life insurance as a means of saving and investment and the exchange of reinsurance business in the region, a topic on which the delegation of Peru submitted a study that attracted considerable attention. At its seventh session held in Djakarta (Indonesia) in September 1974, the East Asian Insurance Congress ^{2/} dealt with subjects of similar interest. The same is true of the Third African Insurance Conference (Yaoundé, Cameroon, June 1974) which examined the various areas for and prospects of African regional co-operation. A study on this question submitted by the Société Centrale de Réassurance of Morocco aroused keen interest.

109. Mention should also be made of the meetings held by the General Arab Insurance Federation in 1973 and 1974. At the first of these meetings (the Eighth General Conference, held at Damascus, Syria, in May 1973), consideration was given to the possibility of introducing a "green card" for the movement of motor vehicles between Arab countries. At the second meeting (~~the~~ Ninth General Conference, held at Khartoum, Sudan, in February 1974) consideration was given to the possibility of associating foreign concerns with Arab insurance companies. On this point, the Conference stressed the need to concentrate on utilizing the available Arab retention capacity, which has not so far been utilized either at the national level or at the level of the Arab countries as a whole. The Conference also considered the question of the investment of insurance reserves and took note of a proposal to establish an independent development bank whose capital would be formed by assets of the Insurance companies of the member countries. ~~A committee was set up to formulate a plan to that effect.~~ The Conference also emphasized the value of the various seminars (~~on aviation, agriculture, transport and petroleum insurance~~) which it had sponsored. The Federation of Afro-Asian Insurers and Reinsurers (FAIR) ^{3/} also focused on the question of vocational instruction and training and the establishment of risk-management committees at its Fourth Assembly, held at Kinshasa (Zaire) in June 1974.

^{1/} References to this organization may be found in document TD/B/C.3/99.

^{2/} References to this organization may be found in document TD/B/C.3/99, paragraph 76.

^{3/} References to this organization may be found in documents TD/B/C.3/99, paragraphs 53 to 57, and TD/B/C.3/107, paragraph 37.

110. Vocational training for insurance personnel was a central concern and sphere of activity of many of the above-mentioned organizations. Some of them have already initiated co-operation with national associations and other regional and national interests with the aim of drawing up curricula designed to fill the existing gaps. Other organizations and federations have drawn up projects in this field which should soon be put into effect. Because of its importance, the project outlined at the Education Conference held by the General Arab Insurance Federation (Tunis, November 1974) deserves particular mention. The aim of this project was to establish regional study and vocational training centres. The participants in the Conference exchanged information and views on the educational systems and machinery in their respective countries, and considered the possibility of undertaking a regional project on the basis of a report submitted by the UNCTAD secretariat. The participants made a number of recommendations based on the main features of this report, including, in particular, a proposal for the establishment of an Arab Insurance Institute. In addition, the Vocational Training Committee of the General Arab Insurance Federation has continued to co-ordinate the national education programmes of the Federation's various member countries. The Committee adopted a recommendation expressing interest in the promotion of statistics and the study of actuarial sciences and requesting universities in Arab countries to take an interest in those subjects. The Committee also requested insurance and reinsurance companies in a position to do so to take in candidates from African insurance organizations who wish to obtain practical training.

111. One of the most interesting aspects of the activities of regional federations of insurers is the role which they are playing in efforts to raise the level of retention, both of individual companies and of national markets and the region as a whole. Activities in this field have in some cases been limited to examining existing possibilities and urging member companies to avail of them. In other cases, the federations have assumed a more active role and have participated directly in the establishment of pools and joint reinsurance organizations. The idea of ensuring a regular exchange of business within the region (and a corresponding decline in the business which ultimately serves to swell the portfolio of international reinsurers) is thus gaining ground both in government circles (paragraphs 99 to 103) and in the insurance industry and its regional federations. However, this process is encountering certain obstacles. Firstly, the insurance companies which would be most directly concerned by such co-operation are aware of the lack of soundness of their own markets and therefore have certain misgivings regarding the soundness of other markets in the region with which they would become associated. Such reluctance on the part of insurance concerns to commit themselves is not uncommon, since this question involves the fundamental issue of their own security. Secondly, political difficulties have hampered seemingly promising initiatives. Thus, the East African Community's plan for co-operation in establishing insurance and reinsurance pools ^{1/} does not appear to have made much headway.

112. Some experiments which fortunately have proved more successful are described in the following paragraphs.

113. At its eighth session, the General Arab Insurance Federation was informed of a very important experiment undertaken by the Maghreb States and involving insurance of their aircraft under a pool system. Moreover, after considering reports submitted

^{1/} See document TD/B/C.3/107, paragraph 45.

by the various pools (aviation, engineering, fire, marine cargo) set up under its auspices, the Federation requested its member companies to increase their cessions to those pools and to conduct a further experiment in the field of ocean hull insurance. At its ninth session, the Federation considered the possibility of increasing the retention capacity of the Arab countries, and to that end, appointed a co-ordinating committee to study the question in depth. It also took note of the growth of the pools established under its auspices, observing, however, that their volume of business fell short of requirements. It was recommended that business transacted by Arab enterprises in the petroleum sector and other economic sectors should have insurance coverage provided by Arab insurance enterprise. The Organization of Arab Petroleum-Exporting Countries was requested to adopt a resolution to that effect. The Federation also called for closer co-operation in the insurance of air and shipping fleets, in the light of the results so far achieved. The Federation of Afro-Asian Insurers and Reinsurers also considered the possibility of increasing the retention capacity of its member companies. At its fourth General Assembly, the Federation stressed the potential importance of the pool which it had established and invited member companies which did not yet belong to that pool to join it.

114. Among other pools or similar organizations which appear to be making satisfactory progress, reference may be made to the East Asian Reinsurance Pool, promoted by the East Asian Insurance Congress, and to the RCD (Iran, Pakistan, Turkey) insurance pools. In 1973, the members of the latter pool considered the possibility of adding to the existing reinsurance services and increasing the retention capacity of the countries concerned by establishing a reinsurance company. This project calls for the preparation of a feasibility study, which has been entrusted to an ad hoc committee.

115. This review would not be complete if it failed to mention an important bilateral co-operation agreement signed in December 1974 between two major Latin American insurers: the Instituto Nacional de Reaseguros (Argentina) and the Instituto de Reaseguros do Brasil. The importance and extent of the interests parties to the agreement and the volume of business involved make this an important development which other companies in developing countries might wish to emulate. The agreement expresses the determination of the two reinsurance institutions to strengthen Latin American co-operation and, to that end, to expand reciprocal exchanges of their international reinsurance business on the following basis: the two parties will give priority to reciprocal participation in their international reinsurance business, particularly business involving a large volume of premiums and good results; the credit balance resulting from such operations will be deposited in banks situated in the country of the ceding company; ~~in their reinsurance treaties, the two companies will~~ provide for reciprocal benefits based on the results obtained; a bipartite technical committee will be set up which will meet periodically and permit a continuous exchange of data and information; the two parties will exchange personnel in order to give them better training.