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INSURANCE

Insurance in developing countries

Developments in 1975-1976

Study by the UNCTAD secretariat

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Contents

Introduction

(i) The Committee on Invisibles and Financing related to Trade, at its second session (April 1967), requested the Secretary-General of UNCTAD "to carry out at least once every two years reviews of developments in insurance, with special reference to developing countries".1/ The present document, relating to the period 1975-1976, has been prepared pursuant to this request.2/

(ii) Part of the information and data needed for the preparation of this study was supplied to the UNCTAD secretariat by the governments of developing countries. These governments were requested, in a note verbale from the Secretary-General dated 30 July 1976, to help the secretariat to collect the necessary information. Out of a total of 118 countries thus approached, only 42 responded, of which 38 furnished more or less extensive information. Only 17 replied were received to a circular letter of reminder sent by the Special Programme on Insurance to a large number of insurance supervisors.

(iii) In these circumstances, the secretariat once again had to draw on very diverse private sources of information, especially trade journals and periodicals. Consequently, the degree of importance attached to certain developments referred to in this study is generally related to the importance attributed to them by the various sources of information available, the accuracy and balance of which could not, of course, be verified.

(iv) Generally speaking, the secretariat has tried to show the new facts with their relative importance in the context in which they have arisen. For this reason, more weight has been given to certain modest events in countries where national insurance business is still very small, than to events which were more important in absolute terms, but which relate to countries that are relatively advanced in this field. The secretariat has sought to provide information which will be useful to the least advanced developing countries, so that they can draw from the experience acquired elsewhere, conclusions adaptable to their own territories. This is, in fact, what the Committee on Invisibles and Financing related to Trade, at its sixth session, asked the secretariat to do 3/ in regard to topics to which it has tried to give prominence in this study, namely, measures aimed at structural modification of the national insurance market and at increasing regional and sub-regional co-operation between developing countries.

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

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

~~3/ See~~ Official Records of the Trade and Development Board, thirteenth session, supplement No. 4 (TD/B/464), annex I, resolution 7 (VI), para. 3.

(v) The present study may also help the Committee to identify the factors acting against expansion of the insurance sector in some developing countries, and to devise joint action to develop their individual and collective potential in this sector. As the Committee recognized at its seventh session,4/ this objective was achieved by the document relating to the period 1973-1974.

(vi) At its seventh session, the Committee suggested that when reporting new developments in future periods the secretariat should include a quantitative analysis of insurance operations carried out in developing countries.5/ The lack of statistics available hitherto and the very limited resources of the Special Programme on Insurance have made it impossible to do so on the present occasion, but it is hoped that the next study, covering the years 1977-1978, will make good this omission.

4/ Ibid., seventh special session, supplement No. 2 (TD/B/590), para. 154.

5/ Ibid., paras. 155 and 156.

Chapter I

POLICY OF STRENGTHENING THE NATIONAL CHARACTER OF THE INSURANCE MARKETS OF THE DEVELOPING COUNTRIES

1. Several developing countries have pursued their policy of strengthening the national character of their insurance markets. The measures taken include the formation of national insurance enterprises (State, private or mixed) where they did not exist before (Benin, Bhutan, Burundi, Ethiopia, Guyana, Lesotho, Rwanda, Socialist Republic of Vietnam); an increase in participation by local interests (State or private) in national insurance markets (Bolivia, Colombia, Ghana, Nigeria, Senegal, Trinidad and Tobago, Tunisia, Venezuela); and the formation of special enterprises to insure government risks exclusively (Pakistan, Peru). Only one country, Chile, has taken a measure which runs counter to the above mentioned objective, by permitting a substantial increase in participation by foreign interests in the capital of Chilean insurance companies.

A. Formation of national insurance enterprises

2. Benin and Ethiopia are the only developing countries which nationalized their insurance markets during the period covered by this study, establishing a State monopoly of all insurance operations carried out in their territory. For this purpose they each formed a State corporation, to which all the portfolios and property of the insurance companies operating in the country were transferred.

3. In the Socialist Republic of Vietnam, a State insurance company has been formed to replace the 30 or so insurance enterprises which existed before, but there is some reason to believe that this measure does not entirely or finally preclude operations by foreign insurers on the Vietnamese national market.

4. Four developing countries, all of them small, land-locked and having very limited markets, have just formed their own insurance companies with participation by the State and foreign private interests. These are Bhutan, Burundi, Lesotho and Rwanda. In the last three of these countries the foreign partners, although they have only very small minority shareholdings, have succeeded in securing substantial economic advantages from the association.

5. The most obvious case is that of Burundi, where the foreign group subscribed only 10 per cent of the registered capital of the national company (CABU). In exchange for technical services relating to the formation and operation of the new company (which will have a de facto monopoly in the main sectors of the domestic market), the foreign minority partners have obtained, among other things, the technical management, a commission of 1.5 per cent on gross premiums, sole rights to the placing of reinsurance, and 35 per cent of the company's reinsurance commission. Whatever the operating results of CABU may be, the foreign partners are sure of making a profit at the expense of national interests.

6. In Guyana, the Guyana Co-operative Insurance Society has been formed with government support. As is well known, the encouragement of the co-operative movement in Guyana is one of the key points of the Government's policy, and the co-operative form is still one of the forms in which insurance business has the greatest chance of expanding. The new company will probably favour forms of insurance specially adapted to national needs and to the characteristics and resources of the population. Provision has also been made for the acceptance of reinsurance.

B. Strengthening of the national character of insurance enterprises

7. In Bolivia a draft law on insurance provides that foreign enterprises must become companies under national law in accordance with Decision 24 of the Commission of the Cartagena Agreement. Two other Andean countries have amended their laws to bring them into line with that Decision: in Colombia, a law enacted in December 1975 prohibits further direct foreign investment in the insurance sector; Venezuela has imposed a minimum of 80 per cent national capital for insurance enterprises, as against 50 per cent before the enactment of the new law.

8. In Trinidad and Tobago negotiations are proceeding with the foreign companies established in the country with a view to their becoming enterprises under national law. General insurance enterprises are said to be reacting positively, but some reluctance has been shown by companies which carry on long-term business. In his 1975 Budget Speech, the Minister of Finance announced proposed tax relief measures designed to speed up the localization of the sector. He also announced his Government's intention of forming an insurance company and a reinsurance company with financial participation by the State.

9. In Tunisia, the Law of December 1974 fixing a minimum turnover for insurance enterprises established in the country 6/ has led to the withdrawal from the market of many foreign companies, which have either regrouped to form new companies under Tunisian law or ceded their portfolios to local companies. The increase in registered capital imposed by the Government will probably lead to a further reduction in the number of companies and even greater concentration of the market.

10. Senegal hopes to be able to use nationalization measures to bring about a concentration of the market and arrive at an optimum number of enterprises. The aim seems to be to retain seven or eight of the 39 enterprises registered at the beginning of the period and to get the market finally reorganized on the basis of Senegalese companies. According to the Government's plans, this reorganization will be carried out by means of mergers, the withdrawal of marginal companies and the buying back of portfolios by Senegalese companies.

11. In Ghana the Insurance Amendment Decree, 1976, has reduced foreign capital participation in insurance enterprises from 60 to 40 per cent. The difference of 20 per cent becomes State property. Ghanean persons, enterprises and corporations will be invited to take up the remaining 40 per cent. It seems clear that the State can refuse to participate financially in any foreign enterprise wishing to establish itself in the country; hence the State has a means of blocking indirectly, if it so wishes, any intervention by foreign direct insurers in national insurance business.

12. In Nigeria the Government has acquired 49 per cent of the shares of the 13 foreign-owned insurance enterprises operating in that country on 1 January 1975. In 1976, the State holding was fixed at 60 per cent, though this rule will not be applied until 1978. The adoption of this measure is said to be closely linked to others, providing for participation in key sectors such as foreign banks.

13. As mentioned above (see paragraph 1), in Chile the new insurance law could help to change the national character of the market considerably, since up to two-thirds of the registered capital of national enterprises may henceforth be foreign owned, as against only one-third in the past.

6/ See document TD/B/C.3/122/Supp.1, para.11.

C. Insurance of government property

14. In Pakistan, the National Insurance Fund set up in 1973 to insure State property and interests, was replaced in February 1976 by another company, also formed by the State. This is the National Insurance Corporation, which took over the assets and liabilities of the former Fund as well as its activities. The Corporation was provided with a registered capital of 500,000 rupees, subscribed entirely by the State. Any surplus of the profit and loss account after constitution of the necessary reserves, must be paid to the Federal Government. The function of the Corporation is to insure not only State property, but also the property and liabilities of public law corporations, State or semi-State enterprises, and enterprises in which the State has a financial interest or over which it exercises direct or indirect control. This leaves the Corporation about 50 per cent of all national premiums in the non-life branches. It is also required to advise the Government and Government-controlled institutions on matters relating to insurance. The problems to be given priority include, first and foremost, a reduction in the cost of insurance through reduction of the risks incurred at present; it is therefore believed that the Corporation will pursue a very active policy of accident prevention.

15. Similarly, in Peru State-owned property - which was hitherto insured by the Banco de la Nación - will now be covered by a company whose capital is also owned by the State (Popular y Provenir). The transfer of this portfolio entailed the simultaneous transfer of reserves for current contracts and of the staff who managed the portfolio at the national bank.

Chapter II

ACTIVITIES DESIGNED TO PROMOTE AND RATIONALIZE THE NATIONAL INSURANCE MARKETS OF DEVELOPING COUNTRIES

16. The creation of a sound and efficient insurance market, capable of covering national risks locally, is a priority objective in the great majority of developing countries. Because they believe that appropriate legislation and effective supervision of insurance operations play a capital role in the promotion and rationalization of their insurance markets, many developing countries have taken measures which include the enactment of new laws to regulate the operations of insurers, the investment of their funds, the protection of the insured and the powers of the supervisory authorities. Measures have also been adopted to diversify certain markets, increase the volume of premiums, provide coverage of new risks and introduce compulsory insurance.

A. New legislation on insurance

17. A new law has been enacted in Nigeria: the Insurance Decree 1976, which replaces the acts of 1961, 1964 and 1968. The following are some of the main features of this law: reinsurance treaties in the branches exploited by the enterprise must be judged adequate and valid; the management of each department of the enterprise must be entrusted to a person judged to be competent and professionally qualified; the granting of the authorization must be in the interest of public policy. An authorization may be withdrawn, among other reasons, if the insurance enterprise "persistently fails to pay claims promptly". The general conditions of insurance policies and certificates must be submitted to the supervisory authority for approval. Rates may be increased only with the authorization of the supervisory authority. The authority may, when it deems necessary, convene a Rating Committee consisting of representatives of public law institutions and of the insurers' association. The Committee may propose rate changes, but its proposals must take account of any anti-inflationary measures the Government may adopt. Commissions payable to intermediaries have been regulated with a view to reducing them. Reserves for unexpired risks and outstanding claims must not fall below certain precisely-defined levels.

18. In Fiji a law on insurance has been enacted for the first time since the country's independence. This is the Insurance Act, 1976 (No. 36), which is to be followed by implementing regulations expected to enter into force in 1977. These two texts open the way for effective supervision of the insurance enterprises operating in the country. They provide for the appointment of a Commissioner of Insurance, whose functions will be much the same as those of the supervisors working in almost all the countries which have followed the traditional system of registering insurance enterprises formerly in force in the United Kingdom. Under the new legislation the Commissioner will be able to obtain essential information on the activities of insurance enterprises, agents and brokers and to give them such instructions as may be required for the protection of the general interest and, more particularly, the interests of the insured. There is also a licence application procedure which should ensure a financially sound insurance market. The Act is particularly valuable in that it limits the sums which foreign enterprises may transfer abroad as "head office expenses", although those limits may seem exceedingly generous compared with other similar legislation.

19. In Venezuela a new Law on Insurance and Reinsurance Enterprises was introduced in April 1975 by Presidential Decree No. 670. It embraces all operations in the insurance sector and not only matters connected with the activities of insurance enterprises; for instance, it is very explicit not only about the solvency and supervision of enterprises, but also concerning the activities of agents and brokers, average adjusters and loss assessors, specialists in the evaluation of risks and representatives of foreign reinsurers. The new law also provides that policies contracted abroad shall be without effect in the country, so that losses covered by such policies are not claimable; it establishes the new membership of the National Insurance Council which, besides the supervisory authority, includes one representative of each insurance and reinsurance company legally established in the country, three representatives of insurance agents and one representative of the brokerage companies; it is more precise with regard to the constitution and investment of technical reserves and contains special requirements for reserves deriving from mortgage insurance and financial guarantees - provisions which no doubt reflect the legislator's concern about the very delicate situations created in the past by operations in these branches.

20. In Egypt, the Insurance Companies Act No. 119 was promulgated to adapt the law to the structure of the existing market. The law it replaces (the Insurance Companies Act No. 195 of 1959) was drafted primarily for a market consisting almost exclusively of national and foreign private companies. The subsequent nationalization of this market necessitated changes in the law. These changes eliminate some provisions on matters concerning which, in the present circumstances, more flexible arrangements can be imposed by the Government on companies under its direct control, without recourse to legislation. In addition, the new Act clearly establishes the principle of the prohibition of direct insurance with companies other than the national companies. With regard to the investments of these enterprises, the Act exempts from taxation income from debentures purchased by the enterprises and loans made by them, as well as interest on deposits with the enterprises, particularly those made by reinsurers as technical reserves held by them. The purpose of the latter provision is probably to make foreign reinsurers less reluctant to constitute such deposits, and thus to help the national companies to invest all technical reserves in the country.

21. In Argentina the text of a new basic law on insurance will probably be approved in 1977, with few amendments to the draft already before the Government. This text is the result of several years' study and negotiation with all the sectors concerned. It is to replace the present law which is said to prevent the market from developing as it could and not to provide for effective supervision. New legislation having similar objectives is being studied in El Salvador and Chad.

22. In Bolivia a draft law was officially submitted in January 1976. It was drafted by a committee whose members were drawn from the Ministry of Finance, the Bolivian Insurers' Association and the Supervisory Authority, a recently established body which has taken over the functions formerly performed by the Central Bank of Bolivia in addition to its financial activities.

23. Saudi Arabia, one of the last of the major developing countries in which the activities of insurance enterprises have not hitherto been subject to special regulations, has recently started drafting legislation, the details of which are not yet known.

B. Investment of technical reserves

24. Thailand brought into force, in August 1976, new regulations which extend the categories of investment and allow insurance enterprises to participate in nearly all the economic sectors of the country, though there are restrictions on certain matters requiring approval by the supervisory authorities. Special care has been taken to fix maximum percentages for each category of securities, so as to spread investment risks and ensure the desired diversification. Investment opportunities have also been extended in Singapore, where it is now permissible, within certain limits, to invest in shares, debentures and other securities issued by the Singapore Reinsurance Corporation Limited, among other categories of investment.

25. In Panama, an issue of State securities to be subscribed exclusively by the insurance enterprises has reached Bs. 2.5 million and the possibility of doubling this amount is under consideration. The same country has also taken the initiative in limiting to 90 days the age of outstanding premiums which may qualify as part of insurance companies' assets. This step is said to have been warmly welcomed by the companies and intermediaries, as it will very probably speed up the collection of premiums, thus improving the liquidity position of the companies (the main object of the measure) and leading to the quicker payment of commissions due to agents. The question of taxation on income from investments in Egypt is dealt with in paragraph 20 above.

26. In Argentina insurers have been authorized, on an experimental basis, to make certain investments in foreign currencies. The funds invested are intended to cover obligations contracted in a foreign currency by earning the necessary amount of that currency, which should encourage insurers on the national market to seek business from abroad. The investments in question may not, however, exceed the amount of premiums (net of commission) received in foreign currency during the last five years.

C. Contractual relations with policy holders

27. In Israel, a draft law has been published in the Official Gazette, the purpose of which is to strengthen the position of the insured vis-à-vis the insurer. Among other measures contemplated, the insurer would be obliged to settle claims within 30 days following the date on which the evidence of the loss is submitted. This provision was probably adopted in consequence of abuses by local insurance companies. The question of time-limits has also been dealt with in Nigeria, where the Insurance Decree, 1967, contains a number of provisions applicable to insurance contracts. Apart from the question of settlement of claims, the new law prohibits the offering of rebates or of a share in commissions as a means of encouraging prospective policy holders to sign a contract.

28. In the Republic of Korea, besides other efforts to reorganize the market, measures have been taken to give policy holders direct protection: the canvassing of customers and the organization of the enterprises' external services have been brought under regulations; efforts are being made to bring rates closer to real costs, especially for life insurance. The supervisory authority is responsible, first and foremost, for ensuring that the factors affecting tariffs and reserves (mortality tables and technical interest rates) are consistent with actual conditions. A new rating system is also being prepared for general insurance; a Council has been set up to settle disputes between policy holders and insurers in cases where claim settlements proposed by the latter are contested. The Council is to consist of representatives of the insurers, academic circles and lawyers. In the same context, Sri Lanka has provided for arbitration by the supervisory authority in cases involving amounts not exceeding 10,000 rupees, though this applies only to life insurance.

29. In Pakistan, national and foreign insurers in the private sector have adopted a code of professional ethics for their organization, designed to promote the growth of their business, which appears to be threatened by the intervention of State enterprises in the national market. They hope by this means to improve their business image and to inspire greater confidence among the public in the services they have to offer. Whatever the motives for taking this step, it should result in higher-quality service.

D. Compulsory insurance

30. With regard to compulsory insurance, mention may be made of certain developments in the United Republic of Cameroon, where Law No. 75/14 and Decree 76/334 now make it compulsory for importers to take out transport insurance for goods imported into the national market. Law No. 75/15 makes it compulsory to insure risks relating to building. In Brazil, the compulsory insurance of vehicle owners against third party liability has been replaced by compulsory insurance against personal injury, independent of the principle of fault. In Mexico, compulsory third party insurance for motor-vehicle owners came into effect in August 1976. It must cover both bodily injury and material damage to third parties. In Hong Kong, the authorities have extended the scope of compulsory third-party insurance to passengers and goods carried. A proposal to separate drivers' third party liability from the principle of fault ("no fault insurance") is in abeyance, because this system has suddenly become less popular in the country which introduced it (United States of America). A law on the compulsory insurance of motor vehicles is now being drafted in Panama.

31. In 1975, the supervisory authorities in the Philippines issued regulations bringing into effect the part of the Insurance Code requiring the compulsory insurance of motor vehicles. The regulations contain provisions on the scope of compulsory coverage, limits of liability, premium rates, policy contract and bond forms, and claims settlement. They also provide for the possibility of forming a pool of companies to spread risks more uniformly between the enterprises operating in the national market. This pool is to be kept under observation by the supervisory authorities, who will not permit the formation of a second organization of the same kind.

32. In Singapore, a Motor Insurers' Bureau was set up in February 1975, with the participation of all the insurers operating in the motor vehicle sector. Its function is to pay compensation to third-party victims of road accidents in cases where, notwithstanding the provision for compulsory insurance, the victim is deprived of compensation by the absence of insurance or defective insurance. The Bureau will also pay compensation when the driver responsible for the accident cannot be traced, and pay any damages awarded by the Courts against motorists whose insurance companies have gone into liquidation.

E. Other important regulations

33. In Colombia, special conditions for the insurance of earthquake risks were imposed on insurance enterprises in 1976. A franchise of 2 per cent (minimum of 5,000 pesos) will be borne by the policy holder. The net obligation of the enterprises (after deduction of reinsurance), calculated for a probable maximum loss of 30 per cent of the insured value in each province or department, may not exceed 20 per cent of their net assets. Special conditions for the reinsurance of these risks are described in paragraph 55. Insurance enterprises must also insure the buildings they own against earthquake risks. The technical reserves for earthquake risks must be 80 per cent of the net premiums retained during the year. These reserves are cumulative and may be used for the payment of claims only as to the non-reinsured portion of the risks. Furthermore, they may be released only when it has been proved that all the enterprise's potential liabilities have lapsed. The investment of these reserves is also subject to special conditions.

34. In Singapore, the national authorities have decided that export credit insurance cannot be regarded as an insurance activity in the strict sense of the term and that, consequently, companies handling this kind of business do not come under the provisions of chapter 193 of the Insurance Act. This ruling applies to the Export Credit Insurance Corporation founded in 1975. The agents of this company and other companies of the same sort are not to be regarded as insurance agents and the provisions of the law in force relating to insurance policies is not to apply in the case of export credit insurance. The law has been amended accordingly.

35. Like the United Republic of Cameroon, Nigeria has made it compulsory to insure all imports on its own national market. All letters of credit and similar documents issued by Nigerian banks or financial institutions in respect of such imports must be opened solely on the basis of transport and freight. Nevertheless, if an insurance broker proves to the supervisory authorities that it would not be reasonable to place the insurance with an approved insurer owing to the peculiar nature of the risk or other special circumstances, he will be granted permission to insure elsewhere.

36. It may be recalled in passing that goods imported into Nigeria by sea are at present subject to serious delays before unloading. The additional risks caused by port congestion seem to be great. Compulsory local insurance will therefore place the insurers in a difficult position unless premiums are

adapted to risks whose extent is difficult to determine. This does not mean that foreign insurers have neglected to adapt their premiums to such conditions. According to some information obtained, most of them have not only applied extremely high premiums, but have also introduced special clauses ("no-risk-after-discharge" and "port delay clause") which exempt them from the greater part of the risks arising from congestion.

37. The Government of the Ivory Coast has the same object in view, and is trying to persuade local importers and shippers to rely more heavily on the national market. It has been pointed out that if all the country's foreign trade was insured locally, total premiums for the local market would amount to $20 million, whereas they are now one-tenth of that sum.

38. In Paraguay, the insurers themselves, grouped in the Asociación Paraguaya de Compañias de Seguros, have requested the Government to make it compulsory to insure within the country imports financed from local sources. The corresponding measures are not expected to be long in following. Because of its landlocked position, Paraguay has a special interest in developing a marine insurance market.

39. Some developing countries have tried to open their markets to business which has traditionally been handled abroad. The measures taken include the efforts made by Brazil to secure ship and aircraft hull insurance for its market, and by Argentina to place on its market third party and other marine risks incurred by national shipowners (Protection and Indemnity). The reaction of the P & I Clubs in western Europe, which formerly covered these risks exclusively, has not been favourable; most of them have refused to provide reinsurance cover for Argentine insurers on the ground that such business has traditionally been done direct with the shipowners concerned. As a result of this refusal whole fleets of Argentine shipping companies have been unable to find adequate insurance.

40. In some countries the government has tried to form specialized companies in certain non-commercial or low-profit branches such as export credit insurance. In others, the benefits of insurance have had to be extended to social classes which rarely have access to them. There is a certain trend to use State-owned companies to introduce agricultural insurance (India, Pakistan, Sri Lanka).

Chapter III

EFFORTS RELATING TO REINSURANCE, AIMED IN PARTICULAR AT INCREASING LOCAL RETENTION OF RISKS

41. Since the establishment of a national insurance industry in nearly all the developing countries, the volume of reinsurance services which these countries purchase abroad to balance and protect their national portfolios has steadily increased. Since the cost of excessive foreign reinsurance protection is considerable, several developing countries have taken steps to encourage their local insurers to retain a larger portion of the risks insured and to transfer abroad only the part which is really in excess of their retention capacity. Other countries have pursued the same aim by making it compulsory to distribute risks locally in the form of co-insurance or reinsurance before covering the balance abroad. Lastly, new local insurance companies have been formed in some countries, mostly with government support or even government participation. Attention must also be drawn to certain opposite trends, however: some disaster-stricken countries have recently required their local insurers to increase the rate of cession of certain risks abroad, and two other countries are relaxing their rules on local reinsurance of risks.

A. Increase in local retention rate

42. In Venezuela, the new insurance law introduces for the first time very stringent regulations on reinsurance with foreign enterprises. The reinsured proportion of risks - and hence the proportion retained - is left for the enterprises concerned to decide for themselves; they may therefore reinsure all or part of a given risk, or even not reinsure it at all, subject, however, to the provisions of article 94 of the law which empowers the supervisory authority to order an increase or a reduction in the amounts which enterprises propose to retain. But once the proportion of retention and reinsurance have been fixed, the following provisions are applicable: (a) The enterprises are obliged to cede 40 per cent or more of all their reinsurance premiums to the national market; but this affects only reinsurance premiums arising from proportional reinsurance contracts. 7/ (b) The reinsurance enterprises established in Venezuela must accept this business on economic conditions similar to those which the ceding enterprises obtain from their reinsurers abroad. (c) Beyond the amount of risks covered by automatic reinsurance contracts, the enterprise must place the remainder in optional reinsurance with national insurance or reinsurance enterprises; only saturation of the underwriting capacity of these enterprises can justify recourse to foreign reinsurers. (d) The supervisory authority may take decisions on the conditions of reinsurance contracts. If it considers them too onerous it will ask the enterprise to give the technical and economic reasons justifying them; and if the explanations are found to be inadequate, it may order the necessary adjustments to the contracts in question.

43. In Mexico, the law which has been in force for some time provides that at least 50 per cent of reinsurance premiums in the main branches must be reserved for the local market. In fact, there is some evidence that enterprises were not observing these instructions scrupulously and that the supervisory authority was not applying

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7/ See "Reinsurance Problems in Developing Countries", study by the UNCTAD secretariat, TD/B/C.3/106/Rev.1, para. 21.

very strict criteria either. Stricter provisions have now been adopted, which require enterprises to provide fuller information about their reinsurers and their reinsurance contracts. The main aim is to prevent these contracts from being used merely as a means of transferring business abroad.

44. In Morocco, fire risks for which the rate of premium and sum insured exceed certain specified limits must, in principle, be co-insured on the local market. Foreign reinsurance is not permitted unless the possibilities of local co-insurance have been exhausted. In order to enable Moroccan enterprises to diversify their portfolio of aviation risks and to establish a better technical balance in this branch, the enterprises which co-insure the national air fleets are required to pay their premiums into a world retrocession pool, managed by the Société Centrale de Réassurance. In exchange, they will receive a share in all the pool's business. Enterprises which do not participate in covering the Moroccan air fleets may, if they wish, receive from the pool a share corresponding to the capacity they are prepared to make available to the Société Centrale de Réassurance.

45. With the same objective of increasing national retention to the maximum and avoiding foreign reinsurance as much as possible, Moroccan enterprises have been called upon to let the Société Centrale de Réassurance participate up to 50 per cent in their compulsory reinsurance treaties. This would give the Société Central a participation in the reinsurance of the market of 65-70 per cent of the total volume of reinsurance, since it is already participating in compulsory reinsurance treaties and optional business. In exchange, the enterprises will receive a share of the business which the Société Centrale de Réassurance receives through retrocession abroad.

46. In Indonesia, an Order of the Ministry of Finance dated 12 April 1975 lays down that reinsurance enterprises wishing to set up in business in the country must have a minimum paid-up capital of 200 million rupees and deposits of 20 million rupees. These provisions directly affect the four reinsurance companies established in the country. As regards reinsurance cessions, one Order has been interpreted as requiring that at least 70 per cent of life insurance premiums should be placed on the local market. The remainder may be reinsured abroad, but it is provided that in this case the business must be calculated on a yearly renewable term basis. This measure prevents the covering abroad of that part of the insured amount which is already available to the insurer in the form of invested mathematical reserves.

47. In Israel, a tax of 15 per cent on all insurance premiums transferred abroad also appears to apply to reinsurance premiums. Parallel to this measure, the supervisory authority is urging enterprises on the national market to increase retentions, which are considered insufficient. It may be recalled that in Venezuela, too, there is a tax on transfers abroad of the balances of reinsurance accounts, though transfers to countries which are members of the Andean Pact are exempted.

48. As regards those countries where insurance is wholly or partly subject to a régime of centralized cessions or "legal cessions", the system operating in Pakistan has developed substantially. The Insurance Rules of 1958 have been amended in such a way that besides the 30 per cent quota of compulsory reinsurance which the national enterprises have to place with the Pakistan Insurance Corporation, the Corporation will also reinsure "not less than 25 per cent of the surplus in excess of the aggregate of the insurers' net retention and sums reinsured within Pakistan including sums required to be reinsured ... on such terms and conditions as the

Pakistan Insurance Corporation may determine from time to time". In other words, besides the 30 per cent compulsory reinsurance of all risks there is now also a 25 per cent compulsory reinsurance of the difference between the sums insured and the sums actually covered in the country. (It may be recalled that an essentially similar system is applied in Iran.)

49. In fact, it would appear that the old system used discriminatory reinsurance methods which depended on the size of the enterprise: whereas large companies transferred abroad a considerable part of their soundest and most profitable business, small companies were reduced to offering the Pakistan Insurance Corporation a large share of their portfolios, for which, owing to their small size and often unbalanced results, it was difficult to find reinsurance cover abroad on sufficiently attractive terms.

50. It must also be mentioned that, during the period under review, progress was made by State-owned companies seeking to obtain substantial reciprocity from foreign reinsurers. In India, for instance, the premiums received from abroad are said to have exceeded the premiums ceded. The General Insurance Corporation of India states that the net premiums retained, as compared with gross premiums paid, rose from 94.9 per cent in 1972 to 107 per cent in 1975. The balance-of-payments surplus announced by the Central Bank in 1975 amounted to $3.5 million. In Brazil, the Instituto de Reaseguros has also said that "international accounts - including insurance and reinsurance - showed a surplus [in 1975] as against a previous deficit of the order of US$ 200 million a year".

B. Establishment of local reinsurance institutions

51. In Nigeria, the Government has approved the creation of the National Reinsurance Corporation of Nigeria which will be responsible for handling compulsory reinsurance business (20 per cent of direct business) and promoting voluntary reinsurance beyond the mandatory limits. The reinsurance functions performed hitherto by NICON (established in 1969 as a corporation under public law) will be transferred to the National Reinsurance Corporation, and the activities of NICON will henceforth be confined to direct insurance business.

52. In Singapore, the State-owned Insurance Corporation has acquired 55 per cent of the shares of the Reinsurance Management Corporation of Asia, in which London brokers also have an interest. The latter Corporation is particularly active in reinsurance business from developing countries.

53. In Peru, 91 per cent of the capital of Reaseguradora Peruana has been acquired by the State and the remainder is held by direct insurance enterprises on the local market.

C. Other new developments relating to reinsurance

54. In Nicaragua, regulations relating to reinsurance were issued in 1976 by the insurance supervisory authorities. Among the main provisions are some which limit the retentions of insurers operating in the country:

(a) Life insurance contracts: the maximum per head is 1.5 per cent of the net assets of the enterprise, plus 5 per cent of the average annual profit calculated on the results for the last three years, plus 1 per cent of the mathematical reserves. An excess of loss of reinsurance cover must protect the retention; it will be taken out for at least 15 times the amount of the retention limit; the priority or deductible amount must be more than 50 per cent of the contingency reserve for the life insurance branch, plus 5 per cent of the net assets.

(b) Fire and ancillary risk insurance contracts: the retention is fixed at not more than 4 per cent of the net assets of the enterprise, plus 10 per cent of its average annual profit calculated on the results for the last three years. These retention limits apply to the risk or group of risks which, by reason of their proximity or of the nature of the property insured, are likely to be affected by a single isolated event. In the case of groups of risks located in one and the same urban area, which may be affected by a natural disaster such as an earthquake, the retention limit is 8 per cent of net assets, plus 75 per cent of the contingency reserve for the fire insurance branch. In addition, the retentions of the enterprise must be protected by excess-of-loss reinsurance for at least 50 per cent of the risks retained in the area of maximum exposure. Special conditions are applicable to enterprises which prove that the risks insured have certain dispersion characteristics.

55. In Colombia, the special conditions in force for the insurance of earthquake risks, set out in chapter II, are accompanied by rules applicable to the reinsurance of these risks. Amounts in excess of the retention limit (20 per cent of the net assets of enterprises) must be placed outside the country with reinsurers of known solvency, on the basis of disaster reinsurance contracts.

56. In Chile, the new law on insurance could greatly change the insurance mechanisms hitherto in force. The Caja Reaseguradora de Chile would be dissolved and its reinsurance business taken over by national companies (which could then be controlled by foreign capital up to a limit of two thirds); direct contracting of reinsurance abroad would henceforth be permitted when the terms offered are more advantageous than those on the national market. It should also be noted that in Argentina the possibility of withdrawing the protection enjoyed by State-owned companies, in particular the National Reinsurance Institute (INDER), is under official consideration.

Chapter IV

NEW FACTS CONCERNING THE ACTIVITIES OF INTERNATIONAL INSURERS AND REINSURERS ON THE MARKETS OF DEVELOPING COUNTRIES

57. For obvious reasons, the structure of this chapter is different from that of the three preceding chapters; it does not deal with concrete measures of government policy relating to insurance, but with events in various countries as reported in trade journals. The UNCTAD secretariat has not been able to verify each of these events in detail; nevertheless it believes that it will be useful to give as much information as possible on the activities of the major international insurers and reinsurers in the developing countries, especially as these quasi-transnational insurance enterprises are still playing a very important part on the markets of the third world. International insurers and reinsurers are increasingly in evidence, either as majority shareholders in local insurance companies or through the formation of real mixed companies of the "off-shore" type, whose sole object is to provide cover for major civil engineering works, industrialization projects and the exploitation of natural resources (oil) in certain developing regions.

Formation of foreign-dominated mixed companies

58. In Iran, the formation of the Iran-American International Insurance Corporation has been announced, with the participation of the American International Group, which is said to be operating in 135 different countries, and of local firms. The Royal Insurance Group (United Kingdom) is participating in the formation of the Hafez Insurance Company under Iranian law. Commercial Union (United Kingdom) has taken a 20 per cent share in the capital of a local company. Stewart Wrightson, a British firm of brokers, has joined with local interests to form Iran Inco Ltd. Another British broker, Bland Payne, which already has 19 agencies in the Middle East, has also participated in the formation of a new brokerage company in association with Iranian investors. A similar case is that of Gras Savoye, which is participating in the formation of Gras Savoye Iran. In addition, the Continental Insurance of New York, the Royal Insurance Company (United Kingdom) and an Iranian business group have joined together to set up a new insurance enterprise, the Dara International Company, in Teheran.

59. In Egypt, the Arab International Insurance Company has been formed at Cairo by presidential decree. Besides Misr, the largest Egyptian insurance enterprise, participants in the new company include major insurance groups of the United Kingdom, the Federal Republic of Germany, the United States of America, Italy, Japan, France and Switzerland, as well as the Arab Investment Company, the General Insurance Organization of Iraq and three Kuwaiti insurance companies. The new company is to operate in the Egyptian Free Zone and in neighbouring Arab countries. Besides the international relations established through its foreign shareholders, it has links with the financing and investment subsidiaries of the Misr company in Iran, Saudi Arabia and Kuwait. There is some evidence that its insurance activities in the Egyptian Free Zone are neither its only, nor its most important object.

60. In the United Arab Emirates, the British company, General Accident, is operating through an agency at Dubai. Another British company, Prudential Assurance, is said to have taken shares in a local enterprise, the Union Insurance

of Dubai, in order to use it as a base for operations throughout the Middle East. The latter company was formed a few years ago with the participation of a large British firm of brokers. As regards the new participant (Prudential), it should be noted that since being no longer on the Arab boycott list, which prevented it from operating in the region, it has been successfully exploring the possibilities of establishing itself in Saudi Arabia and Oman as well. 8/ An agency of Legal and General has been set up in Dubai, which is believed to be intended to handle business done well beyond the frontiers of the host country. The same applies to a company formed at Rasal Khaimalun in the Gulf States with the co-operation of the London market, which will serve as a base for operations throughout the Gulf area.

61. In Venezuela, the Reaseguradora Internacional del Orinoco has been formed. Besides local companies, some of which belong to known groups (Nuevo Mundo is a subsidiary of Generali of Italy and Primera Holandesa belongs to the Dutch Ennia group, the shareholders include the old-established Skandia (Sweden), Munich Reinsurance (Federal Republic of Germany) and Employers Reinsurance (United States of America). 9/ According to the Chairman of Lloyds of London, foreign reinsurance cover for Petroleos de Venezuela will require the combined capacity of all the world's insurance markets. There is talk of a total cover of US$20 or 25 billion, which an earthquake, for example, would be enough to endanger to a terrifying extent.

62. In Malasia, Hogg Robinson, the London brokers, are participating in the formation of a local brokerage company, Albar & Hogg Robinson Sdn. Bhd. at Kuala Lumpur. A similar development has taken place on the initiative of Bland Payne, another British broker. Royal Insurance is setting up in business in the country in association with local interests. On the other hand, four subsidiaries of the People's Insurance Company of Pekin have withdrawn from the market; they informed the national authorities that "they no longer wished to compete" with local insurers. Their activities will be confined to settling liabilities outstanding on 1 January 1977; new business will be transferred to local enterprises.

63. In Tunisia, the provisions of 31 December 1974, 10/ establishing a minimum turnover of 500,000 dinars for companies wishing to keep their licences, have led to the nominal withdrawal from the Tunisian market of many foreign companies, particularly French ones. Some of these have regrouped and associated themselves with local firms to form new companies under Tunisian law, such as the Compagnie Méditerranéenne d'Assurances et de Réassurances, in association with Assurances Générales de France; the Groupe des Assurances de Tunisie, in association with the Groupe des Assurances Nationales, Secours, and Arabia (Lebanon); the Compagnie d'Assurances et de Réassurances de Tunisie, in association with La Préservatrice, Mutuelle du Mans and Mutuelles Générales Françaises; and the Dhaman Union

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8/ Financial Times, World Insurance Report, 25 June 1976.

9/ L'Argus, 18 April 1975.

10/ See document TD/B/C.3/122/Supp.1, para. 11.

d'Assurances et de Prévoyance, in association with Union des Assurances de Paris. Other firms have ceded their portfolios to local companies: the portfolios of Zürich and Foncière have been taken over by Maghrebia, those of Guardian and Motor Union by STAR; COMAR (itself an offshoot of the Paris Group) has taken over the portfolios of Union et Phénix Espagnol and Royal; and Astrée that of the Drouot group. There are thus no foreign insurers left in Tunisia; there are only foreign shareholders in Tunisian companies. 11/

64. In Zambia, Japanese investors are said to have participated in the formation of an insurance company. Their participation is believed to be limited with investments in other key sectors of the national economy (mining and chemical industries).

65. Among the brokers and insurance companies recently established in Saudi Arabia the following are mentioned: J.H. Minet, Bland Payne and Sedgwick Forbes of the United Kingdom; Marsh & McLennan Inc. of the United States of America; and Allianz Lebensversicherung AG of the Federal Republic of Germany. A new company, Al-Alamiya, managed by a well-known American insurance man and having branches at Jedda, Riad and Damman, has been formed under the auspices of United States companies. In addition, the Red Sea Insurance Company has also been established; its capital of 13 million rials was put up by various national investors, who retain 60 per cent of the shares, and by foreign insurance and brokerage firms (Fireman's Fund of the United States of America, C.T. Bowring of the United Kingdom and Dowa Fire and Marine of Japan). This company is said to be registered in Hong Kong, but its activities are centred in Saudi Arabia and other countries of the region. The Saudi United Insurance Company, another new concern, has begun business in the fire and marine branches with a capital of $1.9 million; besides Saudi investors, its capital is shared by the Compagnie Suisse de Réassurances, the Bâloise insurance company (Switzerland) and Commercial Union (United Kingdom). Commercial Union has appointed one of its leading specialists to the post of assistant general manager of the new company. General Accident (United Kingdom) has opened an agency at Damman. National Union Fire (United States of America) has been registered in the country to handle American business and to serve only United States clients established in the country. American Life, another United States company, which is a member of the American International Group, maintains an agency for the sale of life assurance. The expansion of the industrial zone of the Port of Jubail in Saudi Arabia is fairly typical of a situation which is spreading. This is the largest civil engineering project undertaken in the Middle East; it will cost US$1 billion and is expected to take four years to complete. Trade journals say that a London broker had to be called in to interest all the major international markets in covering the project.

66. In Singapore, Sedgwick Forbes of London is opening a local brokerage company with participation by national investors. In announcing this news, the parent company stated that the extension of its business to Singapore was "part of the

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11/ L'Argus, 24 September 1976.

group's strategy of bringing international insurance and reinsurance services direct to the world's developing areas. It follows the establishment of six offices to serve the Middle East". 12/ London Guarantee & Reinsurance, a subsidiary of the Phoenix Assurance Group, has opened a regional office to conduct operations in the Far East and South East Asia. Its general manager said: "This is our first office abroad, and we see it as the beginning of a planned network of overseas service organizations." 13/ The Munich Reinsurance Company has been authorized to do business. On the other hand, three British companies have withdrawn from the market.

67. In the Ivory Coast, La Préservatrice (France) has formed a local company called the Société Africaine d'Assurance et Réassurance. La Préservatrice has also taken a share in an enterprise in Guatemala.

68. In Gabon, L'Union des Assurances de Paris has opened a subsidiary under the name of Union des Assurances du Gabon. Gabonese interests hold 17 per cent of the registered capital. This company, which has taken over the portfolio of UAP, will be the second largest on the Gabonese market, the largest being the Société Gabonaise d'Assurance et de Réassurance, in which three French companies hold 37 per cent of the shares.

69. In Panama, Storebrand, a Norwegian reinsurance company, has formed a company under national law (Alpha Compañía de Reaseguros) to serve as an operational base for the parent company throughout the Latin American region.

70. In Brazil, Assurances Générales Françaises has a 10 per cent share in a Brazilian company which is to help develop foreign investments in the country in new sectors. The Gerling Group (Federal Republic of Germany) is associated with one of the leading national companies.

71. United States brokers have recently established themselves in Mexico; they are represented by local agents and it is believed that their main business is insurance of the risks of United States enterprises established in the country although, in principle, such practices are illegal there. It may also be noted that the sale of insurance is reserved by law for individual agents registered with the supervisory authorities.

72. In Nigeria, the law authorizing the State to acquire a substantial proportion of the capital of foreign insurance enterprises established in the country should have a substantial effect on the structure of the market. It has been pointed out, however, that every insurance office in Nigeria has international links of one sort or another with major international reinsurers or reinsurance consultants whose headquarters are in continental Europe, America or the London Market. 14/ It is

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12/ Reinsurance, London, September 1975.

13/ Ibid.

14/ Financial Times - World Insurance Report, 13 June 1975.

also reported that Stewart Wrightson Ltd., international brokers on the London market, have formed a new brokerage company in association with Nigerian and West German interests. The chief purpose of the company will be to develop the considerable business already being done in the country individually by each of the participants.

73. In Senegal the Nationale d'Assurances, which specializes in marine insurance, has been formed in co-operation with companies on the French market. The largest company operating on the market (Mutuelle Générale Française) has become a company under national law (L'Entente Sénégalaise).

74. Lastly, this chapter would be incomplete without a reminder of the developments in Burundi, Lesotho and Rwanda, which were mentioned in paragraphs 4 and 5 of chapter I.

Chapter V

REGIONAL CO-OPERATION BETWEEN DEVELOPING COUNTRIES IN THE FIELDS OF INSURANCE, REINSURANCE AND VOCATIONAL TRAINING

75. While the first half of the 1970s was the period during which national insurance industries were set up in nearly all the developing countries which had previously had none, the main feature of the second half seems to be the initiation and intensification of regional and sub-regional co-operation. For the developing countries have realized that what they could not yet do at the national level because of the small scale of their domestic insurance markets, could be attempted on the much wider regional scale. Thus a large number of projects have been initiated, covering normative activities (co-operation between insurance supervisory authorities), operational activities (formation of regional enterprises), and vocational training in insurance.

A. Co-operation between insurance supervisory authorities.

76. Central America: In July 1976, the Consejo Centroamericano de Superintendentes de Bancos, Seguros y otras instituciones financieras was officially established. Meetings and contacts had previously taken place between the authorities concerned, at which they had been able gradually to work out the main characteristics and functions of the new institution. The idea had in fact been put forward at the Round Table of Latin American insurance supervisors organized by UNCTAD in September 1974. 15/

77. Andean sub-region: On the initiative of the UNCTAD secretariat and with the co-operation of the Junta del Acuerdo de Cartagena, the supervisory authorities of Bolivia, Colombia, Chile, Ecuador, Peru and Venezuela met at Lima in October 1976. Among the subjects discussed were co-operation between supervisory authorities in the supervision and control of insurance; co-operation to strengthen the sub-regional market; measures to establish permanent co-operation between the supervisory authorities, with the object of making recommendations on insurance policy to the competent organs and studying supervision problems requiring concerted action. Among the recommendations made at the meeting were: (a) to establish permanent co-operation between the supervisory authorities of the Andean sub-region, with regular and systematic exchanges of information; (b) to contribute to education and vocational training in the insurance sector and support sub-regional arrangements supplementing efforts made at national level, giving special attention to the training of technical staff for the supervisory organs; (c) to support and stimulate the exchange of business between insurance enterprises in the Andean region by preferential treatment of reinsurance cessions made there; and (d) to study matters arising from the insurance of transport operations within the region and co-ordinate a common policy on problems of multimodal transport.

15/ See document TD/B/C.3/122/Supp.1, para. 87 et seq.

78. Africa: The International Conference of African States on Insurance Supervision accentuated its purely African character after the withdrawal of France 16/ by transferring its permanent secretariat from Paris to Libreville (Republic of Gabon).

79. Asia: At its fifth and sixth sessions, in 1975 and 1976 respectively, the Asian Association of Insurance Commissioners considered, among other matters, the elaboration of a uniform system of insurance statistics, exchanges of information on national systems of export credit insurance, and the preparation of mortality tables. The exchange of information held on the solvency criteria applied in each country aroused considerable interest and it is said that various ideas contained in national reports have been used to advantage by other countries.

80. South-east Asia: The supervisory authorities of the member countries of the Association of South-east Asian Nations (ASEAN) met officially for the first time at Manila in September 1975. Representatives of Indonesia, Malaysia, Philippines, Singapore and Thailand were present, and agreements were concluded on a number of activities connected with sub-regional co-operation. It was recommended, in particular, that (a) each member country should increase exchanges of information and experience in order to improve the efficiency of its national insurance market; (b) member countries should promote regional projects designed to strengthen national markets; (c) member countries should take measures to provide vocational training at the national and regional levels; (d) greater knowledge of their respective markets should be promoted, for which purpose a committee was set up; (e) exchanges of business between companies in the sub-region, should be increased; to this end at least one company in each member country should be allowed to operate in all the other countries on a basis of reciprocity; and (f) regional mortality tables should be drawn up.

81. Caribbean: At a meeting in May 1975, the Standing Committee of CARICOM Ministers of Finance recommended that a Working Party consisting of government representatives should be set up to suggest measures for strenthening national insurance markets and improving the structure of supervisory organs. The Working Party is also to consider the necessary measures for establishing a sub-regional reinsurance company. Meeting in November 1975, it recognized the need to harmonize the different laws on insurance in force in each of the countries concerned, to adopt supplementary common measures and to make the various forms of supervision applied in the sub-region more effective. The aim is to adapt the legislative and supervisory systems to the economic and social needs of the sub-region. Particular emphasis was placed on the need to adopt uniform criteria for fixing the solvency levels of enterprises, representation requirements for registered capital and free funds and the evaluation of assets and liabilities, on the adoption of a unified system of statistics and on arrangements for closer co-operation between the supervisory authorities of the sub-region.

16/ See document TD/B/C.3/122/Supp.1, paragraph 93.

B. Intergovernmental co-operation in insurance operations

82. The two main events in the operational sphere were undoubtedly the formation of the African Reinsurance Corporation (AFRICARE) and its Asian counterpart, the Asian Reinsurance Corporation (ARC). These are both regional intergovernmental institutions intended to centralize and retain in their respective regions, part of the insurance business hitherto ceded to foreign "international" insurers. As official co-reinsurers, the two regional institutions, while aligning themselves with the leading underwriters as regards the terms and conditions of each treaty, will participate in providing cover and contribute to the development of the national insurance markets in their regions, thus giving reinsurance operations an even more international character than in the past.

83. The structure and mode of operation of these two regional reinsurance institutions are very similar. The governments of countries which are members either of AFRICARE or of ARC undertake to give them at least 5 per cent of the reinsurance business ceded abroad in the form of reinsurance treaties. It is also hoped that each ceding company will approach AFRICARE or ARC, according to the region, to cede optional reinsurance. These two institutions, each of which will have a minimum registered capital of $ 5 million, are due to start effective operation at the end of 1977. AFRICARE will have its headquarters at Lagos, and ARC at Bangkok. 17/

84. As regards intergovernmental regional co-operation, attention should also be drawn to the Round Table meeting held at Yaoundé in November 1976, with a view to introducing in Africa south of the Sahara an international insurance card system for motor vehicle third party insurance, similar to the European "green card" and the "orange card" of the Arab countries. The Round Table, which was organized by UNCTAD with the financial support of the Swedish International Development Authority (SIDA) and assistance from the Government of the United Republic of Cameroon, highlighted the real need for such a system by emphasizing the economic and social advantages which all countries south of the Sahara would derive from it. UNCTAD was requested to prepare a draft convention establishing this inter-African card and to convene, at a suitable date, a conference of plenipotentiaries to sign the instrument.

C. Co-operation between the insurance markets of the developing countries

85. Arab countries: At the tenth Congress of the General Arab Insurance Federation, held at Tunis in 1975, co-operation between the different markets in the region was again strongly advocated. Most of the subjects dealt with at previous Congresses were taken up again, studied more intensively and expanded. These included the application of a more intensive policy of retention of premiums in the Arab region, the creation of joint technical facilities for insurance and the development of Arab technical training. An insurance institute which will give instruction in Arabic is in process of being established at Khartoum. The Arab single insurance card system designed to facilitate the movement of motor

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17/ See also document TD/B/C.3/122/Supp. 1, paras. 101 and 102.

vehicles through the Arab countries, was officially introduced on 25 April 1975. In addition to these achievements, the Congress also drew up an insurance project covering the institutions established with joint capital supplied by the governments of countries in the region. In principle, these institutions will be insured with national companies belonging to Arab countries which participated in their establishment.

86. The Congress devoted its attention mainly to the underwriting and retention in the region of risks located there. The basic aim is to take advantage of a large potential volume of business and provide facilities for handling it on a scale compatible with the capacity of the Arab countries, without endangering the technical balance of their insurance markets. As the Chairman of the Congress said, the object is not "to form a sort of bloc which would obstruct sound international co-operation", but to develop hitherto unexploited national and regional resources. This calls for a dynamic spirit of co-operation and a new strategy. "A market on which over 60 direct insurance companies and more than eight reinsurance companies are operating, and on which the volume of premiums will soon reach $ 1.5 billion, ought to have a strategy of its own".

87. The Caribbean: At the fourth session of the Insurance Association of the Caribbean, very precise objectives were defined, which will later be the subject of negotiations with governments and the sub-regional integration organizations (CARICOM). These objectives are as follows: (a) that national companies of any country or territory in the sub-region be treated on the same footing as the national companies of the countries in which they operate; (b) that the supervisory authorities of each country or territory in the sub-region accept the validity of the supervision exercised in the country of the sub-region in which the company has its head office; (c) that the initial deposits of companies be made with a single regional institution, such as the Caribbean Development Bank; (d) the formation of a regional reinsurance company is considered to be of vital importance.

88. Latin America: Among the subjects discussed at the fifteenth session of the Federación Interamericana de Empresas de Seguros (FIDES), held at San Salvador in November 1975, were (a) the adaptation of insurance services to consumers' requirements; (b) the new regulations to be applied to insurance activities; (c) the relations of insurance companies with society and improvement of the professional qualifications of persons working in this sector; (d) co-operation between companies and the co-insurance and reinsurance links between them.

89. With regard to the last point, a great step forward seems to have been made, thanks to the Protocol of Bogotá signed by the leading enterprises of the region in 1974. These enterprises undertook to "give preference to reciprocal business before ceding (reinsurance) to other markets" and so to co-ordinate such business that "by the year 1980 the capacity of their respective markets will be used to the maximum". In order to attain this aim it was decided to hold, every year, a "Latin American Reinsurance Negotiation Week", which would be like a great market, where insurers would have an opportunity of meeting each other and discussing

conditions for the insurance operations accepted and ceded. The first of these meetings, organized by the Reinsurance Institute of Brazil, was held at Rio de Janeiro in November 1975. The Negotiation Week has already proved a very real success, if only because it has facilitated exchanges of information on countries and companies, which are an essential factor for mutual understanding and integration in a system of reciprocal insurance operations.

90. Africa: The African Insurance Conference held two sessions: one at Lagos in 1975 and one at Casablanca in 1976. The subjects discussed covered practically all aspects of regional co-operation in insurance, including business relations between the various African markets and their reciprocal trade. Other developments in Africa, of more limited geographical scope, but backed by great determination and encouraging possibilities, concern the enterprises from Gambia, Ghana, Liberia, Nigeria and Sierre Leone, forming the West African Insurance Consultative Association (WAICA). In addition to what it has done in the vocational training sector, WAICA is engaged in popularizing insurance services by the introduction of common commercial and technical practices. Another objective is the promotion of reinsurance treaties between member companies. Priority is also being given to changing the wording of insurance policies and the actual types of cover (both inherited from the colonial past) and their adaptation to the mentality, needs, kinds of risk and savings potential of the local populations.

91. Before concluding this section, mention should be made of a form of co-operation which is inter-regional in character. This is carried on by the Federation of Afro-Asian Insurers and Reinsurers (FAIR), which held its fourth General Assembly at Kinshasa in June 1975. At the end of that year the ordinary members of FAIR included 55 insurance and reinsurance companies established in 30 African and Asian countries. The main operational activity of FAIR is the management of an inter-regional Pool accepting cessions from African and Asian markets, which it redistributes almost entirely on the same markets. Since beginning its operations in January 1974, the FAIR Pool has enjoyed a remarkable growth rate and highly satisfactory technical results. It is managed by "Milli Reasürans" of Istanbul.

D. Regional co-operation in regard to training

92. Regional co-operation in education and vocational training is exemplified by the continued activities of the Institut International des Assurances, of Yaoundé, 18/ which have now reached a very satisfactory regular tempo, and the work of the Asian Insurance Institute, of Manila which, although given a national structure by the host country (Philippines), has been recognized as a regional training centre. Other less permanent activities having quite different aims are those of the Education Conference organized in Nigeria by the member countries of the West African Insurance Consultative Association (WAICA). There are also some groups of countries and organizations, both intergovernmental and non-governmental, which concern themselves with training and have held meetings to keep member countries informed of the latest developments relating to insurance. This applies, among others, to Iran, Pakistan and Turkey, which belong to the organization known as Regional Co-operation for Development, of which the Insurance School at Teheran is the only institution of its kind in that part of the world.

18/ See document TD/B/C.3/122/Supp.1, paragraph 98.

Chapter VI

SOME REFLECTIONS ON INSURANCE TRENDS IN THE DEVELOPING COUNTRIES

93. The events recorded in the previous five chapters clearly show that during the 1975-1976 period under review, the insurance markets of the developing countries made progress towards consolidation and established themselves as efficient sectors of the national economy. The fears expressed in some quarters that the developing countries would never be able to manage anything so technical and difficult as insurance have proved groundless. There have, of course, been cases in which local markets have had to face, or are still facing, critical situations, but these situations are only transitory and generally contribute to the correction of past mistakes. It has also been found that the establishment and strengthening of national insurance markets have not impeded the pursuit and development of international relations in insurance, and especially in reinsurance, which is becoming the main link between the traditional insurance markets and those of the third world.

94. Despite these optimistic findings, in some developing countries the progress of the insurance market is too slow in relation to real requirements. There are many obstacles to more rapid and effective progress in this sector; they generally fall into one of the following two categories:

(a) Obstacles and impediments due to defects inherent in certain insurance markets in developing countries;

(b) Obstacles and impediments resulting from a negative attitude or certain obstructive action on the part of foreign interests vis-à-vis these countries.

A. Inadequacy of insurance supervisory services

95. Among the obstacles in the first category, it must be pointed out that in some countries the lack of any effective supervisory body to enforce what may be perfectly sound laws and regulations, is sometimes liable to cause serious dislocation of their markets. It has also been observed that in technical and financial matters some supervisory authorities are unduly dependent on the enterprises; all initiative in regard to supervision is left to them, with the result that the supervisory organ becomes the "satellite" of the sector it is supposed to supervise.

96. The consequences are sometimes extremely serious. This is the case, in particular, when the authorities have no effective means of exercising the necessary supervision and putting a stop to the direct placing of insurance abroad. Again, they are sometimes powerless to prevent the investment of technical reserves abroad, a practice which is contrary to most insurance laws and involves large sums, which it is difficult for the authorities even to estimate. Maintenance of the financial balance of enterprises is also one of the problems in this category. Enjoining these enterprises by law to increase their reserves cannot remove the real cause of the imbalance, which is rather of an operational nature: for example, insufficiency of premiums in relation to risks, systematic under-estimation of reserves, and incompetent or even fraudulent management.

97. The lack of well qualified and experienced technical staff on the supervisory organs is very often the cause of these difficulties, rather than inadequate legislative and administrative provisions. Besides this lack of technical expertise, however, there are less accidental reasons for the subordination of these organs in some countries. Supervisory organs have sometimes submitted to the will of the insurance enterprises they were supposed to supervise, in order to avoid conflicts which might have endangered the support those enterprises had given them. This phenomenon has assumed serious proportions, particularly in countries where the insurance industry has quite an influence on the Government, and is therefore in a position to have such conflicts interpreted as being contrary to a liberal policy pursued in the public interest.

B. Some signs of cartelization of foreign reinsurance

98. Among the impediments in the second category, there are a number of cases of internal agreements between international reinsurers. The fact that the insurance enterprises of developing countries are obliged, in order to safeguard their balance, to relinquish part of the risks to reinsurers in developed countries, gives cause for concern when these reinsurers are in a position to adopt a cartel policy. If such a policy were adopted, it might present certain dangers for insurers in developing countries, who depend heavily on foreign reinsurers to establish their technical balance. On the other hand, there can be no doubt that this policy might drive the developing countries to make common cause and resort to the possibilities of reciprocal cover, which are far from having been rationally exploited hitherto.

99. This situation - which admittedly has arisen only rarely so far - has taken the form, for example, of agreements between international reinsurers limiting the cover for certain disaster risks in various developing countries, particularly in Central America. These agreements have a coercive effect on the ceding insurance companies, which have to leave part of the risks without cover if they wish to continue to be covered by their reinsurers. There are certain indications that this situation has also arisen when agricultural insurance programmes have been drawn up. No long-term planning has been possible in this sphere, because the international reinsurance market has collectively imposed restrictions, based mainly on agreements between the companies constituting that market.

C. Insurance placed directly abroad

100. Despite all the efforts made by most developing countries, insurance business placed directly abroad is continually increasing. This illegal inflow of business is generally tolerated, or even encouraged, by the authorities of certain receiving countries, particularly when these countries exempt the premiums payable from the taxation which would normally be levied if the risk were situated in their own territory. The difference can be as much as 30 per cent or more of the amount of the premiums. This is a discriminatory measure which encourages investors, especially those in developed countries, to call on companies on their own market, in addition to all the other incentives for doing so.

In other cases, the intervention of non-authorized foreign companies is imposed by pressures exercised during financial and commercial negotiations between governments. It has been found that advantage is often taken of these negotiations to alter a policy relating to insurance, which it would have been better for the developing countries to follow.

101. Moreover, the operations of transnational companies continue to have massive cover in the countries where their head offices are situated, at the expense of local insurance markets. There is reason to believe that, at the first stage, cover is provided entirely by centralized insurance at the companies' headquarters. From this cover are progressively deducted the guarantees which must be provided locally under the law of the country in which the transnational company is operating. For reasons of economy and horizontal links, it is arranged that this latter global cover - generally known as "umbrella" or "difference of conditions" - shall be as extensive as possible.

D. Foreign participation in local insurance enterprises

102. There are now many countries in which foreign insurance enterprises may only have a minority share-holding in national firms. This rule has often resulted in branches and agencies of foreign firms entering into an association with public or private interests in the countries where they operate. In some countries this tendency has appeared even without any legal compulsion. It is generally considered to be a positive trend, which has a favourable influence on the structure of the market; for this does indeed become more efficient when foreign agencies, which are generally numerous, disappear from the market or merge to form a smaller number of national companies.

103. In principle, therefore, this tendency towards "localization" suits all the parties concerned. The developing countries benefit from continuity in the insurance services hitherto offered on their markets, which grow more complicated as the guarantees provided are extended and become more complex. The foreign companies continue to be associated with the business they introduced and to derive profits from it; and association with national interests, sometimes linked with local banking and industrial groups, often gives them access to a new potential source of business which further increases their volume of premiums.

104. Nevertheless, the intervention of foreign companies, as described above, often has negative aspects which should be mentioned. In particular, when national companies with foreign participation are called on to take decisions on such vital matters as planning and negotiation of rates for reinsurance, there are many indications that these decisions do not always escape the influence of the foreign shareholder, who, although he has only a minority holding, imposes his will on the company. In fact, there are cases in which the main object of such foreign participation is to obtain reinsurance business from the subsidiary company and to ensure that decisions concerning such reinsurance are not taken independently. Hence it is not surprising that foreign companies readily accept these "localization" measures if they do not seriously reduce the former flow of business between the parent company and its agencies.

E. Increasing intervention of banks in insurance

105. In several developing countries, besides the effects of vertical integration discussed above, there are effects produced by the increasing participation of local banks and other financial institutions in the ownership and management of insurance enterprises. This development is particularly serious in certain countries, where competitive conditions on the insurance market are rapidly deteriorating. In Brazil, for example, seven of the ten leading national companies are now directly controlled by banks, and half of the 20 leading firms are in a similar dependent position. Under these conditions, the credit institutions are in a position of strength, from which they can bring pressure to bear on borrowers to make them take out their insurance with particular companies. These "bank insurance companies" thus have a virtual monopoly of the market in many kinds of insurance.

F. Obstacles due to inadequacy of technical assistance

106. In addition to the obstacles to progress described above, due either to the nature of the insurance markets in certain developing countries or to the activities of foreign insurers, there are also obstacles due to definite inadequacy of the technical assistance available internationally, in particular that provided by the United Nations. In their efforts to restructure and improve their national insurance markets as recommended by UNCTAD, a relatively large number of developing countries have appealed to the UNCTAD secretariat for the technical assistance needed to carry out their projects. Unfortunately, in the great majority of cases, although UNCTAD has made every effort to set in motion the procedure by which UNDP or other donors release the funds needed to finance technical assistance, these funds have not been forthcoming.

107. There are two reasons for these setbacks: first, the total funds made available to developing countries by UNDP and other donors are generally too limited; secondly, insurance is hardly ever a priority objective on the various national and regional technical assistance programmes. While the first of these reasons, although regrettable, is a real obstacle, the second is based on a serious misunderstanding. For there are few economic sectors in which relatively inexpensive technical assistance can produce such big results as in insurance. Being essentially a service industry, insurance is based almost exclusively on technical experience and know-how, and a small contribution of the latter thus acts as a catalyst, and may have quite spectacular results.

108. When the UNCTAD secretariat is requested to initiate a technical assistance project for insurance, it begins by drawing up, together with the governments concerned, an inventory of assistance needs and a long-term programme of action. Then a formal request for assistance is submitted to UNDP on behalf of the governments concerned and with their support: it usually calls for the services of an expert and the financing of an in-service training programme. Even in the unfortunately too numerous cases in which UNDP rejects a request, the preliminary work done by the UNCTAD secretariat is not without effect, since the programmes drawn up have frequently helped the countries concerned to become more clearly aware of the problems confronting them and the possible solutions. The fact remains, however, that without adequate financing in the form of aid, it has seldom been possible to achieve the final object of such efforts.

109. In conclusion, it seems that the present difficulties in obtaining technical assistance for insurance derive from a mistaken idea that aid should be concentrated in certain economic sectors considered to deserve priority. A contrary idea, much more in keeping with the spirit of global economic and social development, is that even if available resources are limited, they should be equitably shared out so that the service sector (to which insurance belongs) can also benefit from them. A harmonious development of the various economic sectors would then eliminate bottle-necks and delays in activities which may perhaps be marginal, but which have a special effect on financial circuits, the balance of payments and the economic and social development of countries.