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REVIEW OF THE WORK PROGRAMME OF THE COMMITTEE

Review of the work programme of the Committee
in the field of insurance

Report by the UNCTAD secretariat

INTRODUCTION AND SUMMARY

1. The Trade Development Board decided, in paragraph 16 of its resolution 231 (XXII) of 20 March 1980, "to request the main Committees to review regularly the elaboration of their work programmes and the implementation of their decisions". Moreover, in paragraphs 6 and 7 of the Report of the Ad hoc Intergovernmental Working Group on the In-depth Study of the United Nations Intergovernmental Structure and Functions in the Economic and Social Fields (TD/B/1154), endorsed by the Board in its resolution 352 (XXXIV) of 20 November 1987, each of the main Committees is required at each regular session, without prejudice to its mandate, to (a) review the elaboration of its work programme and the implementation of its decisions; (b) consider and decide on the work ahead, including tasks to be introduced or prolonged in the work programme; and (c) ensure that any specific tasks be clearly defined with a timetable for their accomplishment.

2. Chapter I of this report briefly reviews the functions of the Committee on Invisibles and Financing related to Trade in the area of insurance and its work programme in this area, as well as major intergovernmental decisions having a bearing on the Committee's work programme. Chapter II provides a review of activities carried out in pursuit of intergovernmental decisions adopted by the Conference and the Committee in the area of insurance. In Chapter III the report discusses issues of relevance for the future work of the Committee.

Chapter I

FUNCTIONS AND WORK PROGRAMME OF THE COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE IN THE FIELD OF INSURANCE

3. The need for developing countries to build up a viable insurance sector of their own was recognized already at the first session of the United Nations Conference on Trade and Development in 1964. The Committee on Invisibles and Financing related to Trade is one of the three Committees that the General Assembly, in its resolution 1995 (XIX) of 30 December 1964, specifically decided should be established by the Trade and Development Board. Its terms of reference are contained in "Rules of Procedures of the Main Committees of the Trade and Development Board" (TD/B/740, annex II). In accordance with the terms of reference, the Committee on Invisibles and Financing related to Trade should inter alia promote, under the general guidance of the Board "general and consistent policies in the field of invisibles" (which includes insurance and reinsurance), keep under review the recommendations of the Conference and the Board in that field, and formulate recommendations thereon to the Board, "keeping in mind the objective of accelerating the economic growth especially of developing countries". 1/

4. The Committee on Invisibles and Financing related to Trade is the only body within the United Nations system which deals with issues of insurance on a consistent and regular basis. Since its establishment, the Committee has held 12 sessions. Since its eighth session in 1977, the Committee's sessions have been held in two parts, one on financing related to trade and the other on insurance. The first part of the thirteenth session of the Committee will be devoted to insurance. Questions of money and finance will be dealt with in the second part of the thirteenth session for which a separate note on the work programme will be prepared.

5. The Committee has carried out activities relating to both aspects of its terms of reference by formulating general policies for intergovernmental consideration with regard to the role of insurance in development and by launching processes to implement the intergovernmental agreements in that field. The establishment and strengthening of national insurance markets in developing countries has been given clear priority following recognition by the Conference that "a sound national insurance and reinsurance market is an essential characteristic of economic growth" (recommendation A.IV.23 adopted by the Conference in 1964). Mainly as a result of the discussions which had taken place in the Committee, the Conference laid down new lines of action at its third session. It stressed in particular the need for efforts to create insurance and reinsurance companies in developing countries; to invest locally the reserves accruing from insurance operations in those countries; to resort to local markets for the insurance of transnational investments in developing countries; and to strengthen co-operation among insurance and reinsurance industries of developing countries (Conference resolution 42 (III) adopted in 1972).

6. The International Development Strategy for the third United Nations Development Decade provided an important direction to the work of the Committee by recognizing that there was a need to establish or strengthen local insurance markets in developing countries and ensure that the terms and conditions of international insurance and reinsurance transactions should be equitable for, and meet the needs of, all parties concerned, particularly

those of developing countries. More broadly, the Strategy called for measures to encourage a more balanced international distribution of service industries and to assist developing countries in minimizing as far as possible their net outflow of foreign exchange from invisible transactions (General Assembly resolution 35/56, adopted on 5 December 1980, paras. 68 and 69).

7. At its sixth session in 1983, the Conference adopted resolution 159 (VI) on international trade in goods and services, which asks the secretariat to pursue its studies on the role of the services sector in development. It was also decided in the Ministerial Declaration adopted in 1986 at Punta del Este in Uruguay that "the negotiations on trade in services sector" held in the framework of the Uruguay Round would be carried out by the GATT secretariat and would take account of the work of the international organizations concerned.

8. The major development in UNCTAD since the twelfth session of the Committee which is of relevance to its work programme in the field of insurance has been the adoption of the Final Act of UNCTAD VII. Under the terms of the Final Act, UNCTAD should continue its work in the field of services. More specifically it is asked to analyse the implications of the issues raised in the context of trade in services and to explore appropriate problematics for trade in services, keeping in view the technological changes in the field of services.

9. The UNCTAD sections of the United Nations Medium-Term Plan for the period 1984-1991, as revised, reaffirm the general guidelines for the work of the Committee in the area of insurance. The objectives are, inter alia, to strengthen the technical, financial, marketing and institutional structure of the insurance sector of developing countries so as to reduce its dependence on international insurance and reinsurance centres; to provide support regarding the establishment and operation of adequate State insurance supervision and of appropriate training and educational facilities, and to promote a higher level of co-operation among developing countries in the field of insurance and reinsurance.

Chapter II

INTERGOVERNMENTAL DECISIONS AND THEIR IMPLEMENTATION

10. This chapter provides a brief review of the Committee's decisions in the area of insurance and of the activities of the secretariat since the twelfth session of the Committee; it may serve as useful background information for the Committee in reviewing of its own work programme.

11. The Committee has over the years addressed problems and formulated decisions in most of the major insurance fields of importance to developing countries. Questions of ways to increase local retention, improve education and training in insurance, deal with problems of reinsurance, and intensify regional and interregional co-operation have traditionally featured prominently in the discussions and decisions. At its more recent sessions, the Committee has emphasized the importance of adapting insurance contracts in developing countries to their own needs and characteristics. 2/ At its twelfth session the Committee drew particular attention to the need to introduce modern methods of risk management in developing countries. 3/

12. The discussions and decisions by the Committee have shaped the insurance work programme. The major activities which have been carried out since the twelfth session of the Committee in the area of insurance are briefly described below.

A. Research and policy studies

1. Reinsurance security

13. At the second part of its twelfth session the Committee discussed the issue of reinsurance security, and had before it a study by the UNCTAD secretariat on that subject (TD/B/C.3/221 and Supp.1). During that discussion, members of Group B and Group D requested the secretariat to clarify the relationship between the role of brokers and reinsurance security. Accordingly, the secretariat commissioned a study on the role of reinsurance brokers in developing countries. This study is annexed to the report prepared by the secretariat for the current session of the Committee entitled "Reinsurance security for developing countries" (TD/B/C.3/228). It summarizes certain key points of the above-mentioned two studies and formulates proposals for policy action that would enhance reinsurance security.

14. The Committee may wish to consider the proposals put forward in this report and decide on possible action by member countries and/or the secretariat.

2. Contribution to the Trade and Development Report 1988, Part two, which dealt with services in the world economy

15. Insurance is an important part of the services sector. The role of services in the world economy, international trade in services and the situation of the services sector in the national economy of developing countries were discussed in the Trade and Development Report 1988. In annex 4 of the Report, the influence of the insurance industry on economic activity, particularly of developing countries, the supply of insurance, issues regarding the international trade in insurance and the development of the production of and trade in insurance are discussed.

B. Review of developments in the field of insurance and reinsurance

16. A biennial report on recent developments in the field of insurance and reinsurance is prepared pursuant to a decision adopted at the second session of the Committee.

17. The secretariat also prepares as background material a statistical survey of insurance and reinsurance operations in developing countries. The most recent one, covering the period 1984-1986, is before the Committee at its current session.

C. Substantive support to technical co-operation activities

18. Close co-ordination has been maintained with UNDP, which has provided support for the technical co-operation activities carried out under the programme. The following activities have been undertaken in this context:

Asian and Pacific region: Mobile seminars on general management with a small team of lecturers were organized in Shanghai, China and in Pyongyang, Democratic People's Republic of Korea, for groups of local participants (1987). Following the recommendation adopted by the Committee on Invisibles and Financing related to Trade at its twelfth session in March 1987, a first series of seminars in risk management were conducted in January 1988 in six East Asian countries or territories (Malaysia, Hong Kong, Republic of Korea, the Philippines, Singapore and Thailand) support being provided in the framework of a regional project. A Round Table on insurance education and regional insurance co-operation was held in Bangkok, Thailand, (July 1987), being attended by high-level government officials in charge of insurance supervision as well as by top executives from insurance and reinsurance institutions from 16 developing countries of the region. Another project provided for two seminars in Manila, Philippines, for officials of insurance commissions in the ASEAN countries, the first one on motor insurance and the second on mergers and other changes in the structure of the market (1987). The secretariat is also organizing a series of seminars for the staff of the ASEAN Insurance Commissions. Two seminars have been held in 1989, one in Manila and the other one in Singapore. A third seminar will be held in Bangkok in 1990.

19. In addition, the Programme on Insurance provided consultancy services in Qatar on the feasibility of a regional reinsurance company and on laws for compulsory motor insurance. It provided consultancy services to Oman on the feasibility of a regional reinsurance company and to Bahrain regarding the development of an offshore captive insurance market. Consultancy services were also provided to the Asian Reinsurance Corporation in Bangkok. Most of these consultancy services were funded by the recipients.

African region: Under a project providing preparatory assistance for the elaboration of a regional insurance educational strategy and the setting-up of a training centre in Eastern and Southern Africa, a Conference was held in Addis Ababa, Ethiopia, in September 1988. Official representatives of Ethiopia, Kenya, Lesotho, Seychelles, United Republic of Tanzania, Zambia and Zimbabwe agreed on the establishment of a regional training centre. In the framework of another project with the objective to strengthen African insurance markets and enhance regional co-operation, a seminar discussing ways to promote insurance in the rural population through insurance co-operatives

was held in Dakar, Senegal (1988). As part of the same project, a meeting with the objective to increase regional co-operation in the field of reinsurance was held in Cairo, Egypt, in 1988. The meeting brought together top executives from reinsurance companies for the purpose of exchanging reinsurance business. A workshop reassessing African insurance markets will take place in 1990 in the framework of the same project. Objectives of the workshop will be a critical evaluation of the industry's performance over the last decade and the setting up of guidelines for the future.

20. At the country level, the following assistance using UNDP resources was provided to:

(a) Kenya: sectoral support was provided for the training of the staff of the newly-created insurance department;

(b) Maldives: sectoral support was provided to the Government in connection with the establishment of a State-owned insurance institution and the organization of a training programme;

(c) Zimbabwe: sectoral support was provided for the training of the staff of the newly-created insurance department.

Chapter III

FUTURE WORK

21. Within the broad mandates for the work of the Committee in the field of insurance, responses to the challenges posed by new development initiatives and orientations of many developing countries will need to be developed. These have also to take account of the worsened economic situation facing most developing countries. The wording of the Committee's agenda in the field of insurance has traditionally been phrased very broadly so as to allow the Committee great flexibility in choosing the issues which it finds susceptible to analysis, discussion and negotiation. The Committee might wish to identify a number of issues which at this juncture appear to be of special relevance and which it might therefore wish to examine in some depth. In order to stimulate thinking on such questions, the following paragraphs sketch out briefly a number of topics. While certainly not constituting an exhaustive list of problems which might be addressed in an international forum such as the CIFT, they represent concrete areas of inquiry where improved policies could contribute to a strengthening of insurance markets of developing countries.

A. Restructuring of insurance markets

22. Insurance markets in many developing countries may undergo rapid transformation due to changes in policy orientations adopted in developing countries which have a bearing on the financial and insurance sectors of their economies. Among changes of great potential impact are Government decisions to abandon the monopoly of State insurance companies and to encourage a greater number of insurance entities to enter the market and to compete for business. Insurance markets of developing countries may also be affected by the outcome of negotiations in the Uruguay Round of a multilateral framework for trade in services, which could eventually lead to a greater degree of liberalization of insurance markets. In this context, developing countries may wish to examine the impact of providing greater access for foreign insurance suppliers in their domestic markets. A number of questions therefore arise. Among them is the question of how far increases in efficiency, which may be expected from more vigorous competition in national markets, are offset by negative effects. The latter may emanate for example, from the fact that insurance companies of developing countries are often under-capitalized and thus do not yet have sufficient capacity to compete with the subsidiaries of foreign companies. Questions of how much competition should be welcomed and how far the "infant industry" argument still keeps its validity in certain insurance markets of developing countries could also be addressed. Other questions which might be considered concern possibilities to expand the capacity of markets, the optimal number of companies in view of the need for adequate capitalization and reserves, and issues relating to possibilities for a rationalization of their performance in tune with the growth-oriented strategies of developing countries. An in-depth analysis of these issues might provide new insights which could prove useful to policy-makers in developing countries when faced with the need of decision-making in these areas.

B. Extending insurance cover to productive entities of the traditional sector, in particular to agricultural production

23. As the general policy lines adopted by many developing countries are based on efforts to provide closer linkages between the modern and the traditional sector, the insurance industry might want to reflect on possibilities to provide its specific contribution to these efforts. Two areas for consideration may be singled out in this respect. One relates to the initiatives of many developing countries to revitalize their agricultural sector, the other to initiatives to provide incentives for the establishment of small-scale industries, based on local (often agricultural) resources and producing for the needs of the domestic population. The following questions may be considered in this context: How could the insurance industry best support these efforts? Which types of cover could be developed and/or introduced? Are there relevant experiences of developing countries regarding covers that have proved useful for agricultural production and which can be offered by the insurance industry on a long-term basis? Do the latter lend themselves to more universal adoption? What are the possibilities for countries of establishing crop insurance organizations, to be operated through regional reinsurance organizations? How far is Government support needed? Which experiences exist for co-operation between the Government and private industry and how far would they be worthwhile for consideration also by other developing countries? Analysis of such questions is in compliance in particular with the mandate of CIFT to assist developing countries in devising - within the means available to them - insurance schemes better suited to their basic needs, taking into consideration their social, economic, and cultural characteristics. Within this overall context, questions relating to the introduction of more effective risk management methods for agricultural production might also be addressed.

C. Increasing insurance awareness

24. Questions relating to insurance awareness in developing countries might also be considered. Increasing this awareness is necessary for several reasons. One is linked to the fact that insurance markets of developing countries cannot significantly expand if they continue to be mainly focused on the urban population. Another reason is that traditional forms of social "insurance" which used to be provided by the extended family are rapidly disappearing in developing countries and need to be replaced by modern forms of insurance. How can new strata of the population be acquainted with the latter? How far can the educational system be charged with transmitting a basic knowledge of the need for insurance and the services it can offer? Are insurance co-operatives a useful means to reach the rural population?

D. Effective insurance regulation and supervision

25. Sound insurance regulations and effective supervision are indispensable to ensure the orderly functioning of insurance markets. In countries marked by rapid economic and social transformations there is a need for flexibility in adapting such regulations to changing conditions. How can a sufficient degree of flexibility be achieved which is compatible with the necessary stability and reliability of such regulations? Questions which might be addressed in this context are, for example, how considerations to ensure a sufficient long-term profitability of the insurance industry can be combined with concern for consumer protection? The Committee might wish to analyse in

this context some problem areas and discuss experiences of countries where balanced solutions have been found. Questions may also relate to the need to achieve a certain harmonization of regulations in view of the growing international co-operation within the insurance industry. The Committee might also look into some issues associated with the stubborn problems confronting many supervisory authorities in developing countries regarding an improvement of their effectiveness.

E. Reinsurance security

26. The Committee may wish to follow up on its consideration of reinsurance security in developing countries and on any action the Committee may have taken in this respect. It may wish to consider the need for further exchanges of views and experiences regarding measures within the realm of authorities that effectively support insurance companies of developing countries in improving the security of their reinsurance.

Notes

1/ Rules of procedure of the main Committees of the Trade and Development Board (TD/B/740), p. 33, paras. 1 and 3.

2/ The text of the resolutions adopted up to the eleventh session of the CIFT is reproduced in the booklet entitled "The activities of UNCTAD's Special Programme on Insurance", Geneva, 1986.

3/ Resolution 31 (XII).
