

RECORD OF SOCIETY OF ACTUARIES 1993 VOL. 19 NO. 2

OVERVIEW OF THE INSURANCE INDUSTRY AROUND THE WORLD

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JOHN C. VIEREN
Recorder: KATHERINE L. HOLT

- What does it take to become an actuary in foreign countries?
- Professional Standards of Practice
- Disciplinary Standards
- Education programs supported by the SOA in developing countries

MR. JEFFREY T. DUKES: Notwithstanding the session title, I hope you will not feel we have falsely advertised if we restrict our discussion to the life insurance industry and omit Canada, the U.S., Australia, and Africa. I work in Milliman & Robertson's Chicago office. My background is primarily in modeling and valuing life companies and in product development. I also spent a year with Bacon & Woodrow, the U.K. member firm of Woodrow Milliman, working with a team researching the non-U.K. life insurance markets of Europe and advising U.K. companies interested in expansion into continental markets.

I believe we have an excellent panel. They are David Gulland from Bacon & Woodrow's Epsom office, which is a suburb of London famous for its salts and the Derby; Fernando Troncoso from the Washington, D.C. office of the Wyatt Company; and John Vieren from the Hong Kong office of Tillinghast/Towers Perrin. Our recorder is Kathy Holt who's also from Milliman & Robertson's Chicago office.

David is a senior consultant with Bacon & Woodrow and a Fellow of the Institute of Actuaries. He says that aside from product development, his main professional activity is in pan-European joint ventures. The pan-European work also occasionally enables him to escape from English weather and food and spend time in Italy; he lived in Rome for 14 years. David will speak about Europe.

Fernando's geographic assignment is Latin America. Fernando is originally from Mexico City, where he qualified as an actuary in 1973. He received an MBA from the University of Texas at Austin in 1976 and in 1980 became the first Mexican to obtain his ASA. He has been with the Wyatt Company for 11 years, where he assists clients, particularly Latin American clients, with their life insurance and benefit needs.

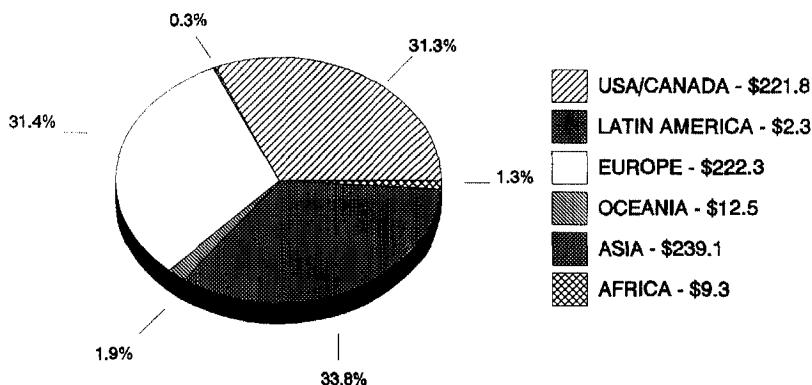
John is an FSA and the manager of Tillinghast's Asian operation. He has been with Tillinghast since 1982. His consulting background includes assignments in North America, Europe, Asia, and Australia and work in life company acquisitions, Asian expansion strategies and analysis, product development, and financial analysis and projections. I found out that he has lived in most of the other continents except possibly Antarctica, too, so he's been around a little bit. John will cover Asia.

* Mr. Gulland, not a member of the sponsoring organizations, is Senior Consultant at Bacon & Woodrow in Surrey, England.

Before the panelists begin I want to spend some time setting the stage for them by providing some data on the size and recent rates of growth of selected life insurance markets. The figures in my charts are based on 1990 data and were taken from a report prepared annually by Swiss Re. The report with 1991 data should be out any day now.

Chart 1 shows 1990 life premium by region. In the Swiss Re report life premium does not include A&H premium and is based on domestic production only. Amounts have been converted to U.S. dollars at year-end exchange rates. As you can see, the European, Asian and the U.S./Canadian markets are all about the same size and account for almost all of the world's life premium. There's roughly \$220-230 billion in each of those three markets.

CHART 1
Life Market Size by Region
1990 Premiums in U.S. Dollars (Billions)



Source: Data from Sigma/Swiss Re 4/92

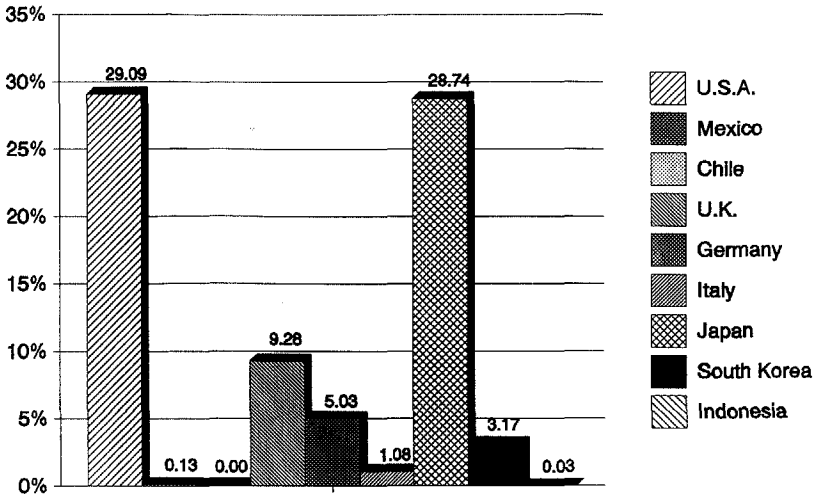
Chart 2 shows life premium as a percentage of the world total for selected countries. Notice that Japan accounts for a great portion of the Asian life insurance market, while the European and Latin American markets are less concentrated. Japan and South Korea are the two largest Asian markets, at least based on 1990 numbers. The U.K. and Germany are two of the top three in Europe.

Looking at life premium as a percentage of Gross Domestic Product (Chart 3) is one way to get a sense of how developed the market is. On this basis, the life markets of Latin America, as well as of certain Asian and European countries such as Indonesia and Italy, are relatively undeveloped and may, therefore, represent market opportunities. But even the U.S. market looks undeveloped using this measure when you compare it to South Korea, the U.K. and Japan. However, you have to avoid reading too much into these figures without further research. For example, I think you would expect the life market to be undeveloped in countries like Indonesia with

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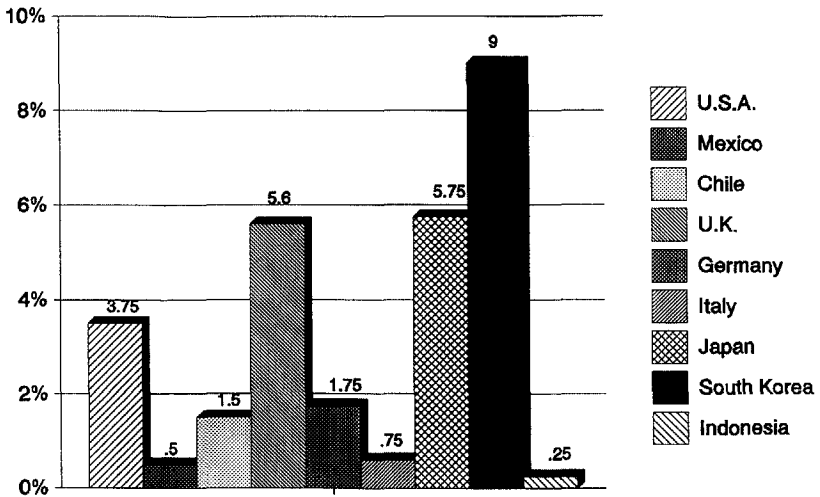
less developed economies. There may also be cultural and other reasons for low ratios in both undeveloped economies and in developed economies such as Italy's. Similarly, very high ratios may be the result of a combination of high national savings rates and the relative attractiveness and availability of insurance products as a savings vehicle.

CHART 2
World Share of 1990 Life Premium



Source: Data from Sigma/Swiss Re

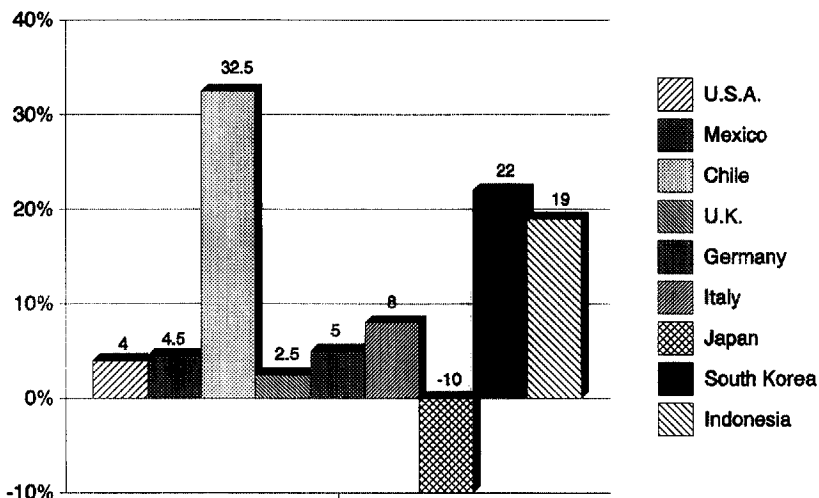
CHART 3
1990 Premium as a Percent of GDP



Source: Data from Sigma/Swiss Re

Chart 4 shows 1989-90 real growth rates for the same group of countries. To say that growth was healthy in Chile, Italy, Indonesia and South Korea is to put it mildly. However, you need much more analysis before you can understand the reasons for the different rates of growth and reach any conclusions about long-term growth expectations. You also have to bear in mind that some of these are very high growth rates off a very low basis, but that's not uniformly the case.

CHART 4
Real Growth (1989-1990)



Source: Data from Sigma/Swiss Re

We will begin our circuit of the world close to home with Latin America, but before Fernando begins I think we should pause briefly to reflect upon what these gentlemen are about to attempt. Ferdinand Magellan set out to circle the world in 1519. Only one of his five ships and 17 of his 241 men made the entire trip. It took almost three years, and Magellan himself was killed in the Philippines. Jules Verne's fictional characters Phileas Fogg and Passepartout would have set a world's record in 1873 if they'd actually circled the globe in 80 days. Space shuttles routinely do it today in 90 minutes, but Gulland, Troncoso and Vieren will endeavor to do it here in less time. At that speed it's just possible that they may not cover something of interest to you.

MR. FERNANDO J. TRONCOSO: We're going to try to cover five countries: Argentina, Brazil, Chile, Mexico, and Panama. Latin America has about 27 countries according to the Organization of American States (OAS). There are 10 in South America and seven in Central America. If you include Mexico and the Caribbean, you reach the 27 that belong to the OAS. I selected the five countries that I will cover, particularly because of their recent developments and the interesting qualities that they have with respect to the life insurance and health insurance environment. The first one we're going to visit is Mexico. The four areas that I want to touch on in each country are products, the regulatory environment, distribution, and marketing.

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MEXICO

During the 1980s Mexico experienced hyperinflation. So all the traditional products that were in existence, such as term, whole life and endowments, disintegrated. If you want to be a successful insurance company today, you must have an indexed product that will keep up with inflation. When Mexico was experiencing hyperinflation, it was not uncommon to see monthly renewable term changing on a monthly basis.

In Mexico today, two of the products that have been even more successful than universal life are individual life insurance indices and individual products with a side fund. The mechanism for this product, what we call "deposit administration," consists of borrowing from the reserves and investing this amount in a trust fund that has a high return on investment. Dividends are then paid from the amount in the trust fund. Most of the leading companies in Mexico now have this type of product. So, even though term insurance, endowments, and whole life products are available, today's most common purchase is this type of product with a side fund. The dividend feature makes this product attractive.

Two ways to collect dividends are to buy side monthly endowments, which are legal in Mexico, or to buy other types of short-term endowment policies that will mature very fast. These immediately go into the side fund to be invested in banks and other areas that are not regulated regarding their investment into insurance companies. That's the key factor here. Reserves have to be invested in certain types of bonds and liquid assets, but these side funds do not. So insurance companies have become very active in the investment field.

Regarding health insurance policies, individual and group are sold basically on a 50/50 percentage. Remember that Mexico has a social security system that includes universal coverage for everyone. Nevertheless, not everyone uses it. This is primarily because you have to line up to get services, and when and if you get them, they are not very good. In the future we are expecting to see a large increase in annuity sales. This is due to the government's announcement of the savings retirement system on May 1, 1993.

In the regulatory environment I thought it would be interesting for you to know who is the head of the insurance department in Mexico. The body is called the Comisión Nacional de Seguros y Fianzas (National Commission of Insurance and Bonds) and is located under the Secretary of the Treasury. One of the important facts about Mexico is that the commissioner supervises the industry. He authorizes products and so forth and so on. An interesting point is that in Mexico there is an actuarial school. There are qualifications that each actuary must meet in order to retain a license. Insurance companies are required to have annual valuations certified by an actuary. It can be an external actuary or it can be an internal actuary. However, the law also requires an annual actuarial audit, and an external actuary is required to complete the audit.

Another important fact is that dollar-linked products are now authorized in Mexico. Companies cannot sell dollar products, but they can sell a peso product tied to the dollar. As a result, premiums might change on a monthly basis according to how the dollar changes.

One of the more current issues being studied by the Commissioner's office includes the simplification of the insurance contract. It has come to their attention that few policyholders read the fine print in the policy forms. Therefore, the department is trying to develop a plain vanilla contract that companies can use as a guideline policy form. Another interesting development is that foreign investment in insurance companies in Mexico is now allowed. Today a foreigner can invest in an insurance company in Mexico, but as a foreigner can own only up to 49% of the company. An interesting point to mention is that there are currently only 49 licenses in Mexico, meaning there are only 49 insurance companies. So, if a foreigner wants to establish a business in Mexico, they cannot apply for a new license. However, a foreigner can buy an insurance company and then retain 49% of the investment.

The distribution system of life and health insurance in Mexico is composed of direct agents, independent agents and brokers. A direct agent is an agent that works exclusively for the company and can be either on a commission basis or a salary plus commission basis or a salary plus incentive plus commission basis. The independent agent can sell to whomever he wants provided he has the license to do so. The difference between a broker and an independent agent is the size of the market that they serve. Brokers are more well-established. They have big clients, multinationals, in particular, and they are the leaders in group life sales.

Next, I would like to discuss the markets in Mexico. Who buys what and to whom are the insurance companies trying to sell their products? Recent studies have been done revealing that less than 5% of the population in Mexico buys insurance. So, Mexico is a market that basically is untouched. We just need to have a better understanding of how to sell products. Unfortunately, Mexico is a very poor country. There are a lot of people who just make the minimum wage, and they cannot afford to buy insurance on an individual basis. They normally buy it on a group basis through their employer. The fact remains that only 5% of the population buys insurance in Mexico. For individual life and health, the insurance companies normally try to market to the medium- and high-income classes. Corporations are the major consumers of group health products. Unions, associations and corporations are the major buyers of group life.

PANAMA

I picked the country that has the most developed life insurance market in Central America which is Panama. In Panama the currency is called the balboa. It's exactly the same size as the U.S. dollar. As a matter of fact, when you're in Panama, if you are able to get an actual balboa, keep it. They are very rare. Currently, the most popular product in the Panama market is semiuniversal life. Semiuniversal life has the basic principles of universal life with a side fund and required fixed cash values. Traditional life and term products are sold as well, but semiuniversal life is the leader in sales in Panama. Group life is sold in high quantities, and to my surprise health also is sold very frequently in Panama, both on the individual and on the group basis.

In Panama the head of insurance regulation is the Superintendencia de Seguros (Superintendent of Insurance). He serves under the Department of Commerce. There are no "home-grown" actuaries in Panama. There are actuaries that have moved into Panama from other countries and others who have just studied under the apprenticeship of another person who merely calls himself or herself an actuary. There is

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nothing to prevent someone from signing their name and putting the title of actuary underneath it. However, this person is then responsible for understanding any calculations if questioned. Basically, the actuarial profession doesn't exist, per se, in Panama. The Superintendency of Insurance supervises the industry, but a key point to remember is that they do not approve plans. They only register the plans. It is the responsibility of the insurance companies to make sure that premiums plus interest are enough to keep the policy in force. They have different laws that we're going to talk about in a moment.

There are tests in Panama that are based on in-force figures. These tests reveal whether or not the company is well-capitalized. If a company doesn't pass the test, its license is taken away or the superintendent requires an infusion of capital to ensure solvency.

An actuarial audit of the life reserves is mandated by law. This is not done at the time of the actuarial valuation, but at the time the annual statement is submitted. This is an audit of life reserves only. Health reserves are basically unearned premiums. Companies may set up incurred but not reported (IBNR) claims, but these are not required.

There is a new publication that is coming out that is going to have information on insurance companies such as asset tests and asset/liability information. The purpose of this publication is to provide comparisons of insurance products for the potential buyer. Also, there is a new pension law. It is already in Congress in Panama and is about to become law. (There is a 120-day grace period in Panama before a bill that passes becomes law. We are now within the 120 days.) This law will allow trust funds for pension plans with tax deductibility. As a result, insurance companies are already looking into the fact that, yes, this creates a big market now for annuities. Many insurance companies already have their products ready. They are waiting for the law to come out, and, boom, you're going to have a big annuity market in Panama. Also, the fact that Panama has a U.S.-based economy is very attractive for investors, particularly since Central American currencies are deflating.

Panama's distribution system is very similar to Mexico's. There are independent agents and brokers. There are no direct agents because there is a law in Panama that says that an employee of the company cannot act as an agent. This has nothing to do with the insurance laws. This is a labor law. Insurance companies do not want to have employees who are only salespersons because after several years they can come back and claim severance payments from the insurance company because they were employees.

It is important to remember that there are three million people living in Panama, most of which are poverty stricken. Panama is a country that has been hit very hard by the last two dictators – Noriega and Torrijos. The country went into very serious poverty. Individual life insurance is sold to the medium- and high-income classes. Health insurance is definitely only for the high-income classes. Like Mexico, group life is sold mainly to corporations and associations. There is a large untapped market in Panama for insurance. Many potential buyers are not being reached and current policyholders need more coverage than what they have.

BRAZIL

Let's now go to South America. Brazil is a country that has suffered greatly from hyperinflation. They have had many new currencies within the last 10 years. They continue to use the same bills, but delete zeroes from the end as inflation continues. Today a bill might be worth 100, whereas before it was worth 100,000. The only life insurance product available is a monthly renewable term index product that is sold on a group basis. The premiums and sum insured change every month. This becomes very cumbersome. Brazil has two types of groups. The first is the closed group such as a corporation. The other is the open group. Accountholders in a bank would be an example of an open group. Surprisingly, the biggest seller in the insurance market is health insurance, both on the individual and on the group side.

The Superintendencia de Seguros Privados (Superintendent of Private Insurance) is the head of the national insurance department. He is organized under the Ministerio da Fazenda which means the Ministry of the Treasury. In Brazil, there is an actuarial school where actuaries can become licensed. So, Brazil has a system similar to that in the U.S. in that actuaries are licensed, sign annual statements, and are responsible for the well-being of insurance companies, at least from the liability side. The superintendent provides norms and supervises the industry. An actuarial certification is needed for reserves. One might ask what type of certification would be needed on a monthly group renewable term? The answer is, not much. But you need an actuary to state that there is a zero reserve on a monthly renewable term, particularly for the health side.

Some current issues in Brazil include the simplification of policy forms and the expedition of policy form approvals. Believe it or not, companies are required to submit a new policy form every month to the superintendent for approval. This is because companies cannot just renew or update existing policy forms. They have to resubmit and get approval. Policy form approval procedures are filled with red tape in Brazil. Brazil, even though it's one of the largest countries in South America, is not well-developed in the life insurance arena.

Brazil also has independent agents and brokers. As I discussed earlier, they operate under the same concept, but the brokerage system is more organized. An independent agency may be only a one- or two-man shop. One of the things that has hurt life insurance in Brazil is inflation. Current Brazilian inflation is similar to what the U.S. experienced from 1981-82 when interest rates soared to around 20%. But in Brazil rates are up to 20% per month! On a compounded basis, these rates lead to a large lack of purchasing power. This makes it increasingly difficult for insurance companies to develop products that will remain attractive for more than a few months. Moreover, not only are interest rates high, but inflation is extremely variable. If companies overcompensate using higher than expected rates of inflation when developing products, consumers will become dissatisfied with the price of insurance during low inflation months. So variability only further complicates the problem. Another solution would be to develop more dynamic products. Then the administration becomes complex because eventually the product is forced to go on a monthly basis. Many insurance companies are waiting for a more stable economy to develop products. Once the economy stabilizes, insurance is really going to boom.

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Health insurance is the biggest seller for all income classes. You say, Wow! Lower classes buying health insurance? Yes. The reason is because the social security system is in bad shape. Even though Brazilians have universal coverage under social security mandated by law and everyone is covered, nobody uses it. Only the very, very low classes that have no choice will line up for four or five hours to get care from a doctor. It is really a big problem. Medium- and high-income claims have group coverage through their employer.

ARGENTINA

For the last 18-24 months, Argentina's economy has been improving. Last year's inflation rate was only 17%. This is low if compared with the years in which it had close to 1,000% on an annual basis. Because the country has not gained confidence in their economy, group life insurance is the major seller. Companies are beginning to develop some whole life and term-to-65 products, but only very small amounts. Government health insurance in Argentina is called the Obra Social. Every company, not by law but by collective agreement, sets a medical plan for their employees through group medical insurance. The system is similar to an HMO. Obra Social is a type of prepaid medical plan that is being sold both to individuals and groups. Two years ago the government introduced a new system of retirement insurance called Seguro de Retiro. These are individual accounts under a defined-contribution basis. Most people buy the individual accounts which convert to annuities at retirement. However, deferred annuities are also available. Individuals can also buy voluntary life and disability insurance associated with their particular account. The Superintendencia de Seguros de la Nacion (Superintendency of Insurance of the Nation) is the government regulatory body located under the Secretary of the Treasury. This superintendency regulates the industry.

There is an actuarial school in Argentina. Actuaries are required to sign on reserves, just as actuaries do in the U.S. Prepaid health insurance companies do not require the actuarial certification. Life reserves in Latin America are called mathematical reserves. The other reserves are called technical reserves and are used for unearned premiums on casualty and health insurance. For technical reserves, you do not need an actuary, but an actuary is required for mathematical reserves.

The minimum capital requirements of an insurance company in Argentina changed two years ago. The regulators use a company's in-force amounts, liabilities, and capital to test for insufficiencies. Argentina's reinsurance monopoly has disappeared. It is now legal for companies to buy reinsurance from foreign companies. The Caja de Ahorros y Seguro was the government insurance company. It had the biggest share of business because it was insuring government employees. Under a dictatorship the government is the biggest employer, and therefore has the majority of the business. This company is now being privatized. It is still for sale today. The deal has not closed, but this will open the books for many other companies to come in and try to grab the business that the government is leaving behind.

Finally, distribution in Argentina is mainly through direct agents and brokers. Individual life is sold mostly to medium income classes. High-income classes do not buy individual life. There is a great deal of black market insurance in Argentina. Problems arise when these companies refuse to pay claims. Because the company is operating

illegally, policyholders cannot go to the commissioner of insurance to file a complaint. Corporations and associations are the major purchasers of group life.

CHILE

Social Security has been privatized in Chile making annuities the major seller of insurance products. The AFP is the Pension Fund Administrators. These are basically individual accounts into which the employer puts 13% of your salary. The account accumulates with interest until retirement at which time the lump sum can be converted to an annuity. The second biggest sellers are life insurance and disability. These life insurance and disability products are not the same as those in the U.S. These are mandatory purchases associated with the individual accounts. The government requires that everyone buy life insurance and disability insurance. The health insurance segment of social security was not privatized. You can buy from the government or from a private company. The health insurance market is very large. Many people do not want to rely on the government social security system for their health needs because of poor service and long waiting periods for care. Traditional and group life are much smaller markets.

In Chile, the Superintendencia de Valores y Seguros (Superintendent of Investment and Insurance) is the regulator, and is located under the Department of the Treasury. There are no actuaries in Chile, so accountants are responsible for signing the annual statement. Business administrators with some background in statistics are now being trained to be actuaries, but there is no licensing of actuaries. Any individual can act as an actuary for an insurance company. Currently, the government is developing a regulation for solvency margins and a new law establishing minimum capital requirements.

Distribution in Chile is accomplished through direct agents and brokers. Direct agents normally sell traditional products on an individual basis. Brokers concentrate on group life and annuities. As mentioned earlier, life insurance and disability are sold primarily by the government and therefore no agent is involved in the sale. The AFP also markets annuities. So, again a major market, the annuities, are sold without an intermediary. You have to buy them. It's mandatory. So, the markets that are here are basically the annuities, number one, and they are aimed at the retiring participant from an AFP, social security. The second one is individual life and health which is basically sold to the medium- and high-income classes. Why? Because those are the people who are working, and if you are an employee, you have to pay social security contributions, and, therefore, you have to have this element. Finally, group insurance is purchased by companies, unions, etc.

MR. JOHN C. VIEREN: I'll try to cover some of the Asian insurance markets. I've had assignments in many Asian countries with the exception of China, India and Vietnam. I'd like to cover who the foreign players are in the Asian life markets, where they operate, the size of the markets, market shares of the top three companies, what the rules are of entering the markets, the historical foreign company activity in the Asian markets, and some of the more recent activity. Time permitting, I will try to cover the regulatory environments.

There are about 220 domestic companies and 30 foreign companies. If you do some rough calculations, that's about 15% in terms of number of companies. Roughly 30

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foreign companies have about 80 operations in the region. This is an interesting point because of all the domestic companies operating in Asia, with the exception of a few Singapore companies, none operate in markets outside of their home market. The exception to that is in Singapore where four of the companies have branch operations in Malaysia. So, as I'll point out later, I think that is very interesting because the size of some of these companies is bigger than all of the markets in southeast Asia. I think likely expansion from Japanese companies will happen in the future. They have significant interest in China and significant interest in the Taiwan market.

Of the 30 companies, I've picked the top seven based on the number of operations. AIA has been operating in these markets for a significant period of time. AIG has had a very successful strategy in the region. In Asia, they operate under AIA, but they are known as the AIG. Manulife again has been operating in that part of the world for a significant period of time. If you go back prior to the 1980s, you probably wouldn't see the last five companies operating in the region (Aetna, John Hancock, Cigna, New York Life, or Prudential US). Of the 30 companies, essentially 11 are from North America.

I'll give you some insight into why the American companies have been operating in Asia, and why they're dominant. There are seven from the U.K., four from Canada, three each from Australia, France, and the Netherlands, two from Switzerland, and one from Italy. Once you get beyond companies that have four operations, there's a large number that have three operations, roughly eight. There are six that have two, and 13 that have one. Of those 13 companies that have one operation, eight of them operate exclusively in Hong Kong.

AIG is the only company that currently operates in China. It has a license to do business. It's a life and nonlife license to do business in Shanghai. In Thailand there are essentially two companies. The reason that they're very limited is that it's extremely difficult to get in. There are only about 11 domestic companies. The only way in is a joint venture. I'll get into that a little bit more later. There is very little activity in the Philippines. In Singapore there are essentially five companies, and most of the foreign companies have been in existence for quite a period of time. Hong Kong has many inactive licenses. Korea and Taiwan have received the most activity since about 1987. Indonesia has grown significantly in the last three years where nine companies are operating. If you compare that to the number of domestic companies, the least activity is clearly in Thailand where 12 domestic and two foreign companies exist. The Philippines are about the same. Taiwan clearly has the highest concentration of foreign companies. Again, a count of 59 companies in Hong Kong is a bit misleading because there are many companies that have multiple licenses. For example, National Mutual, an Australian company, has about three licenses. Manulife has about three. AIG would have about three. So the numbers become a little bit misleading.

Each of the markets, with the exception of Hong Kong, publishes statistics on the life insurance market. They are either published by the regulators or the life insurance associations. We have been collecting the statistics since about 1987. The numbers for the Philippines and Thailand are essentially from 1989-90. They tend to run either one or two years behind. Hong Kong is essentially estimated because Hong Kong is the only market in the region that doesn't publish any statistics on its market. They

have recently started collecting data, and I suspect that for 1992 they will be publishing realistic statistics on the market. If you look across in Chart 5 they're not drawn to scale, but if they were, essentially you would not see anything outside of Japan. Japan is larger than the rest of the region. In fact, Japan is larger than South Korea and Taiwan. This helps put the market in perspective in terms of size.

CHART 5
Life Insurance Market Statistics (Premium Income Size)

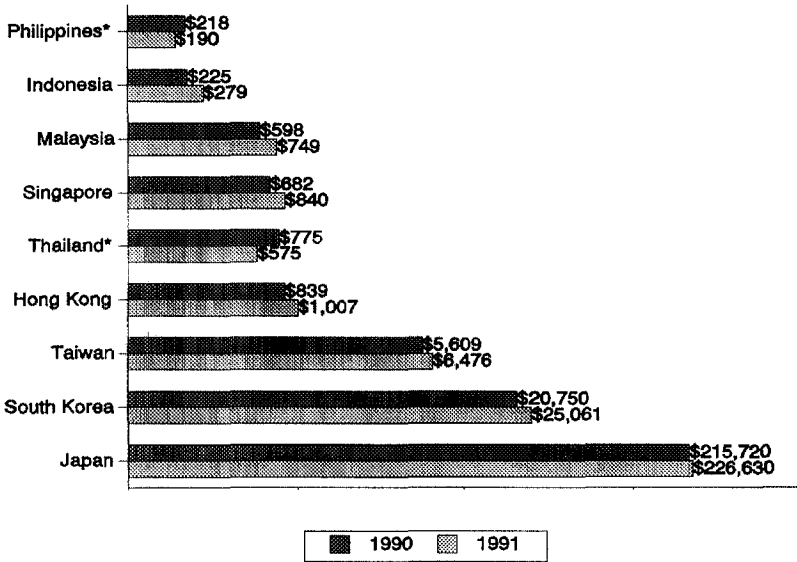


Chart 6 is a comparison of what happened from 1990-91. I think the interesting observation is that the southeast Asian markets essentially have in excess of 20% growth with the exception of the Philippines which has had 15% for a prolonged period of time. Taiwan and Korea show clear downward trends, although some of the southeast Asian markets do as well. Japan had a significant decline in 1990. It's interesting that in Taiwan the decline in the markets is coincidental; there also is a significant decline of foreign interest in that market.

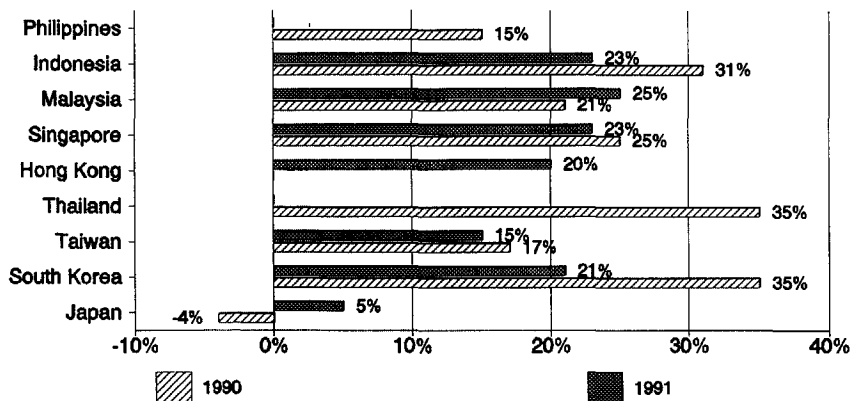
I've just given you a quick snapshot of what life insurance premium income and the growth rate look like. Clearly the southeast Asian markets are the smallest markets showing the largest growth. If South Korea was down a bit on its growth, then you'd probably see that trend a lot clearer. Take some of these numbers with a grain of salt. Because of the currency conversion I doubt if these are exact, but I think they do reveal the general magnitude of the growth and the size of the market.

The market share of the top three companies in each Asian country across the region is that unlike either European markets or North American markets, you've got a high concentration of three companies dominating the markets. The highest concentration would be in Taiwan by Cathay, which has nearly 50% of the market. So if you enter

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that market, this is the competition that you will be facing; one company having 50% domination. The highest concentration is in Thailand. The least would be down in Japan where it's higher than what you're probably used to seeing.

CHART 6
Life Insurance Market Statistics
Premium Income Growth Rate



Some of the company names are confusing because AIA does not operate under AIA in all these markets. They carry on under different names. But if you were to look at these, AIA would rank in the top three in six of these nine markets. In four out of the nine they would rank number one in terms of premium income.

Across Asia, AIA probably has in excess of \$4 billion of premium income which is fairly significant. Of the foreign companies that you may be familiar with, Manulife is in the top three in Hong Kong and is in the top three in Indonesia. Aetna is in the top three in Malaysia. Sun Life is in the top three in the Philippines. In Singapore, other than AIA, the other two companies are domestic companies. In Singapore, for example, you've got Great Eastern which is a large-sized company for southeast Asian players, and the only other market they operate in would be Malaysia on a branch basis. I think it's really interesting that while they have the capital and the surplus to expand, they don't. In Thailand, you have AIA again and then two domestic companies. You have Nippon, Daiichi and Sumitomo in Japan. In South Korea there are essentially three large domestic companies. If you were to pick the top six companies in Korea, you'd probably be looking at a 90% market share. This is in terms of premium income drawn to a logarithmic scale, but you can clearly see Nippon has nearly \$40 billion of premium income. They're larger than everyone outside of Japan. Looking at the other markets, they would be larger than all of the other countries put together. If you go down the line, Cathay and Taiwan again would be larger than the rest of southeast Asia put together. So, it's clear to me that the domestic companies in the northern part of Asia have the size to allow them to essentially burn their way into any of the markets that they want to, but up to this point they haven't. While they've expressed lots of interest, most of their interest is China, but there's currently a lot of activity from the Japanese companies looking at

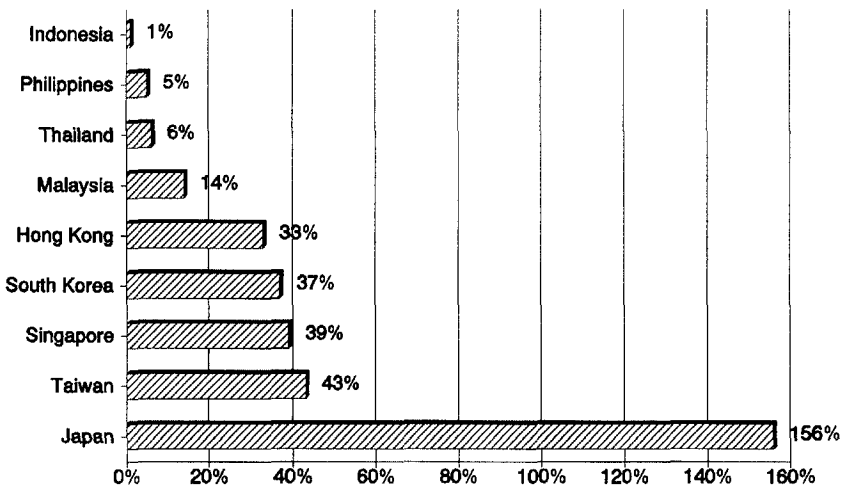
the Hong Kong market. My guess is that Hong Kong will extend that into China longer term.

I think India, Vietnam and China are the markets that we will be talking about 10-15 years from now. I think this is where the activity is going to be in the long term. I think people who are looking at entering the northern markets or the more developed markets in terms of GNP, are going to be faced with difficulties due to saturation of the markets, trying to get human resources, and tightening of regulations. I think these markets are just more difficult to enter today. I think there's still a lot of opportunity in Southeast Asia, but they are only windows of opportunity in that entering the markets is becoming more and more difficult. The exception is Indonesia.

I think the Vietnam market will be faster developing than the China market, and India will be slower. In India, there are five insurance companies, four nonlife and one life. They are essentially nationalized companies. Sun Life of the U.K. has recently done a joint venture there with the one life company to sell unit-linked business. So, I think, if I was giving you any free advice, I'd say focus on the underdeveloped markets long term and look at the southeast Asian markets. There is still a lot of activity in those markets today.

Chart 7 is a population insured index; it measures the number of policies in force, including group business, relative to the size of the population. Clearly Japan is very high and Indonesia is very low. I think that's probably one of the reasons why there's been such a significant amount of activity from foreign companies entering Indonesia. While the Philippines is nearly as low, there has really been no interest on behalf of foreign companies to look at that market. Some have shown interest in the Thailand market, but it's extremely difficult to get into it.

CHART 7
Life Insurance Market Statistics
Population Insured Index



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Table 1 shows what some of the practical modes of entry are; notice that some of the markets no longer issue licenses, such as Malaysia, Singapore and Thailand. They just will not issue a new license irrespective of what political pressures, or any other pressures or lobbying that you do. They will absolutely not issue licenses.

TABLE 1
Market Entry
Practical Modes of Entry

Country	Issuing Licenses	Ownership Restriction	Practical Entry
China	Yes	None	Unclear
Hong Kong	Yes	None	Branch, JV, ACQ
Indonesia	Yes	80%	JV
Japan	Yes	None	Branch, SUB, ACQ
Malaysia	No	30%	JV
Philippines	Yes	40%	JV
Singapore	No	None	JV, ACQ
South Korea	Yes	None	Branch, SUB, JV
Taiwan	Yes	49%	Branch, JV
Thailand	No	25%	JV

I've qualified China as a possible market for entry, but it's only because of what AIG has done. The majority of the companies looking at China today are essentially trying to get representative offices. What exactly that means longer term is unclear. The general thinking in Hong Kong or in the rest of the region is that if you get a representative office in China, you'll be permitted to do business in three years, but I think that's more market rumor than actual fact.

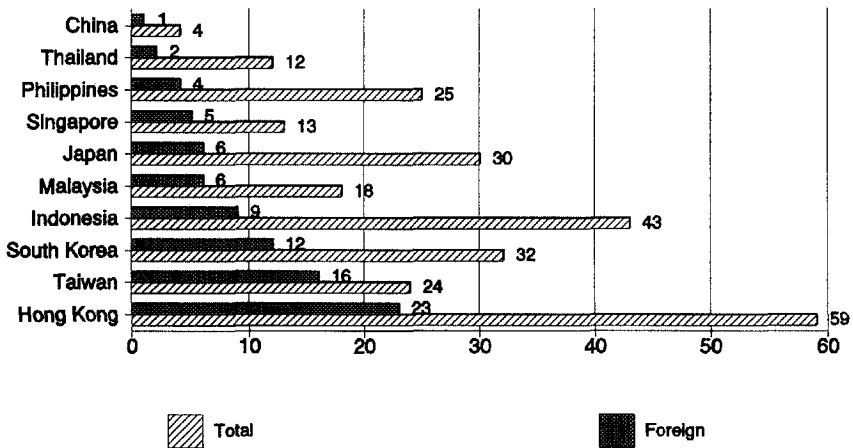
In Hong Kong they are issuing new licenses, but it is on a select basis. Indonesia and Japan are issuing licenses. Philippines has recently introduced new legislation to allow new licenses to be granted. That has come about in the past year or two. In South Korea I think the answer is yes. In Taiwan they've liberalized their thinking in that historically they only issued licenses to U.S. stock companies. Currently they are allowing domestic companies to get licenses, and indications are that they will allow non-U.S. companies to obtain licenses as well. The southeast Asian markets restrict how much you can own, and the amount of ownership is most prohibited in Thailand which is another reason why there has been limited activity there. The least restrictive countries are Indonesia with 80%, and then 30% in Malaysia, and 40% in the Philippines. In Taiwan, if you're doing a joint venture, you're restricted to 49%.

Practical modes of entry in China are unclear. Some people think that if they are doing business in Hong Kong in 1997, they will be allowed to do business in China. I think that's misleading. I don't think that's true. The use of representative offices, again, is an unclear area, but people seem to be opening representative offices, and then I guess they'll wait and see what happens. Even though you can get a license in Hong Kong, it is restricted. If you're going to get a new license, it's likely to be a branch license. That seems to be what the regulators are focusing on. Joint

ventures and acquisitions are clearly possible. Indonesia requires a joint venture. In fact, in all the southeast Asian markets a joint venture is required, except Singapore where either a joint venture or an acquisition is possible.

If you go back to 1980 and earlier, there was very little activity in the Asian markets. The activity really began in about 1987 when the U.S. put pressures on Taiwan and Korea to open their markets. Southeast Asia was getting very little attention other than in Hong Kong and the historical British companies that have had operations in southeast Asia for long periods of time. Indonesia was closed prior to 1987. Then, in 1987 it formally opened its market to joint ventures on the life side. There have been divestitures in Japan and Korea. While there are probably six foreign companies operating in Japan (see Chart 8) today, there used to be probably nine or ten. In Korea there have been some divestitures as well. I won't go through them. There was a rush of companies to northern Asia. Looking back on what's happened, either there was difficulty in the home markets or there was a change in leadership. Some of the divestitures and rationalization have resulted from this. I also think that the companies who go in with a regional strategy rather than a one-off opportunity that knocks on the door tend to have better results and tend to be there for the long term.

CHART 8
Foreign and Domestic Competitors
Foreign and Total Competitors by Country



Probably the most significant activity that I've seen in southeast Asia has been in Indonesia. There are nine diverse companies operating there. They're from the U.S., Canada, Australia, and Switzerland. AIA was the first company in, and it was followed by John Hancock and Manulife. They were the first three companies. Then, it was quiet for a little while but the 1990s brought a large influx of foreign players. Some of that was essentially because of the success that Manulife has had in that market. In the period that they've been there they've essentially become the third largest company. They are the largest writer of new business. So, they've been very successful in that market. I asked some of the nine companies that operate in

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Indonesia why they picked Indonesia as a market that they saw opportunities in, and these are some of the reasons that they pointed out. First was the growing middle class. I think that's very true, but it is growing only around the Jakarta area where there's about 10-15 million people living. Clearly, there is a large uninsured population which I showed you in the insured index.

Estimates show that there are 10-20 million people in Indonesia who can afford insurance who currently don't have it. This is one of the major attractions for people looking at that market. Second was limited capital investments. Some of the companies reported that they need to invest 5-10 million U.S. dollars. Fairly low surplus strains. Generally rapid break-even periods.

An introduction of the recent pension legislation has attracted some attention. The insurance companies can manage the assets as long as they are in segregated accounts. Any benefits paid out of a pension plan must be paid out in the form of annuities. Again, the insurance companies see opportunities there.

Finally, the companies thought that the domestic players were really very unsophisticated in terms of the way they ran their business and the technologies they were using.

Another area where companies are showing interest and studying the market is Hong Kong. I mentioned this a little bit earlier. Many claim that China has enormous potential. I think, in fact, that's misleading. I believe that if you are in Hong Kong in 1997, while you are in a better position than companies who are not, I don't think it gives you automatic access to the Chinese market. I'll talk a little bit about China's market later.

Retirement legislation was passed last year. It's been running for about a year-and-a-half. The original thinking was that it was going to require mandatory pensions which attracted a lot of interest from companies operating in the Hong Kong market.

The group market is an expanding one. Probably about 15% of the life insurance market is group. The legislation that was passed last December is called the Retirement Occupational Scheme Bill. It does not mandate pensions. It does require proper funding and registration. The runoff to this legislation heightened the awareness of the population. There are opportunities in the pension business, but it is an extremely competitive market compared to North America's. Two areas about the group insurance market that are interesting are the unemployment rate and the inflation rate. Hong Kong has about a 1% unemployment rate. So, people use group insurance, especially medical benefits, to attract employees. The Hong Kong market is notorious for employees, after about a year or two, moving on to another employer for very small increases in pay. So, employers don't plan for long-term.

Inflation in Hong Kong tends to run at about 10-12% annually which is very confusing because the Hong Kong dollar is pegged to the U.S. dollar. So, rates of return in the Hong Kong market are much lower than the inflation rate, creating a very strange environment. The group benefit costs are about 5% of payroll. With 10% inflation you can see what a significant effect group insurance has on employers. The expatriate market, essentially focused on by U.K. companies, is a

single-premium, tax-motivated business. It is a very lucrative market, sold through salaried staff. The single premiums are extremely large, ranging up to 100,000 U.S. dollars. Ease of entry is often quoted. It is fairly easy to get into the Hong Kong market, but with 59 registered companies in life, it is becoming much more difficult. Many companies think it's an easy first start if they don't have an operation in Asia simply because of the business practices and because English is the spoken business language. So, it's easier than, for example, Thailand where all correspondence is in Thai and English is not widely spoken.

If you want to develop the Hong Kong market, it's likely to cost you a significant amount of money in contrast to a place like Indonesia. One does have to question investing those types of sums with the exchange to the mainland in 1997. I mean if you just think back to 1989 and the Tiananmen Square incident, you'll remember that Hong Kong can be very much like a yo-yo.

Taiwan currently has a lot of activity, but it's in part because the domestic companies as well as the foreign companies believe that if you are doing business in Taiwan, you will be allowed access to the China market. Taiwan has changed their legislation now. The current activity is in the domestic companies. There are eight domestic companies and about 16 foreign companies. They are now allowing domestic companies to obtain new licenses. Seven applications have been submitted. These domestic companies are looking for joint venture partners because they don't have the expertise in insurance. I honestly think that these new domestic players will have a larger impact on the market than the foreign players who are there now. I say that in a negative way because I think they will do things that are irrational in terms of pricing, employing staff, and picking up field force from other companies. So, there will be lots of movement of home office staff and I think that will have a negative influence on the market. This year, only one foreign company, Zurich, obtained a life license. So, there has clearly been a significant slowdown in foreign interest. This is primarily because the market is getting saturated, especially if these new domestic companies get their licenses. The Japanese are showing interest and, in the next five years, there will be a rationalization of operations in Taiwan similar to the Japanese market.

AIG is the only foreign-established company. It has an unrestricted life license but a restricted nonlife license. It is only permitted to operate in Shanghai. It has been working on getting that license for a very long time, so, it's not automatic. The Chinese market has about 1.5 billion U.S. dollars in life premiums. That would make it the fourth largest market in Asia. It is probably close to the size of the Hong Kong market. I gathered that information from the annual reports. The largest company is People's Insurance Company (PICC). It was established in 1949. There was a period where it was inactive and then it resurrected itself. It probably has about 90% of the market. It is a nationalized company. It operates across all of Asia. It is owned by the Bank of China. Within that group there are also two companies that operate in Singapore and Hong Kong, Taiping and China. They do life, nonlife and reinsurance. There's another company within the group called Mingan. It operates in Hong Kong. It is based in Hong Kong, and it has an operation in a special economic zone in the Guangdong province. Outside of that there's another company called Pingan. It's owned by the Industrial and Commercial Bank of China. It's a provincial company. In other words it can only operate in a particular province. The other nationalized

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company, other than PICC is China Pacific, and it is owned by the Bank of Communications. It has control of the other 10% of the market. It obtained its license in 1991, and it is changing the market share of PICC.

I think there are about 20 representative offices, and, interestingly, about seven of those are from Japanese companies, looking mostly on the nonlife side. The majority of them are from U.S. companies. I think Aetna was the last one to get established on a representative office basis in Beijing and Shanghai. There are a couple of U.K. companies that have representative offices. There have been companies that have had representative offices for nearly 10 years. So, I think it's a little bit misleading to say a company will get a license after three years. They are working on new insurance legislation, but it's been expected for a couple of years. I think it'll take time. We did obtain a copy of the existing regulations. I had them translated, but they do not say a whole lot. Clearly, I think there is long-term potential. The population is over 1.2 billion people. If you collect one dollar from each one, I think you've got a reasonable premium income. The market practices are very unclear. The regulations required that you maintain a solvency fund of 10% of your profits. Products need to be approved, and the only products you can issue are those that are being issued by PICC. They have to be identical. Distribution practices are a bit unclear. From what I can gather, it looks like it's really a salaried sales force or a mixture of salaried and commission.

MR. DAVID GULLAND: I want to start with a little bit of background about Europe because some of my American colleagues seem to be a bit unclear. You must distinguish between the European Community (EC) nations and the members of the European Free Trade Association (EFTA). Now, the EFTA has actually signed up to join the European Economic area, apart from Switzerland. That's important. And that leaves everybody else. I haven't included Turkey or the ex-Soviet Union countries. Political variety is reflected in the variety of premiums per head. In Chart 9, EC countries are on the bottom, EFTA are in the middle, and everybody else is on the top. Now, even though the EFTA countries have a very high premium per head, they are very small countries, and I'm going to concentrate a little bit more on EC in the time available. Even within the EC, there is a wide variety of growth rates. On the top of Chart 10 is the growth rate of Spain. The large 38% growth rate for Spain is heavily distorted by tax money. In the early 1980s, a lot of single-premium business was paid into life companies which distorted the growth ratios.

Let's move on to regulation. There has been a general move towards a single market in Europe. This was started back in 1979 with the First Life Directive which laid down a freedom of establishment criteria and a standard solvency margin between the value of assets and value of liabilities of 4%. However, it did not define how assets and liabilities were to be determined when calculating this margin. So, it wasn't really a very common margin at all.

The Second Life Directive in 1990 laid down the principle of freedom of services. This meant that a customer could, by his own initiative contact an insurance company outside of his home state to buy a life policy. So, it wasn't really a very great innovation because, not surprisingly, the volumes of business sold under that directive were quite small. However, the most recent directive passed in November 1992 is very important. I want to cover that in a little bit more detail.

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CHART 9

European Life Industry – Premiums per Capita 1990 U.S. Dollars

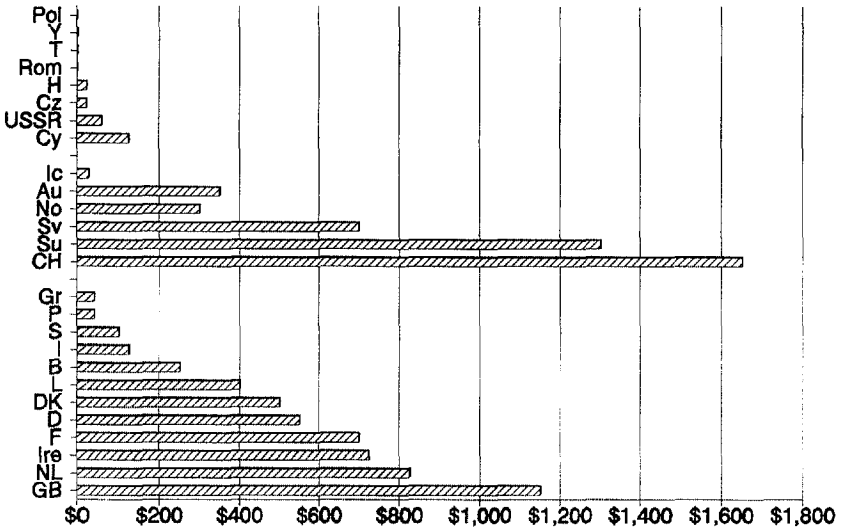
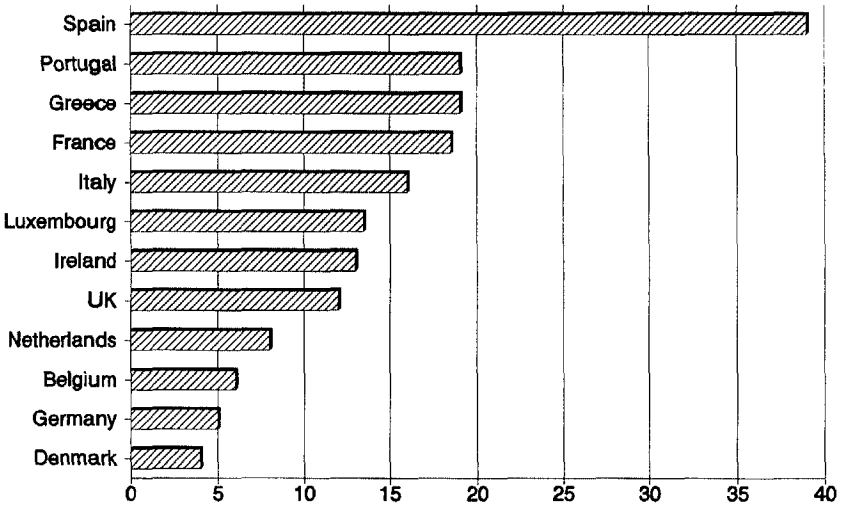


CHART 10

European Life Industry – Real Growth Rates in Premiums to Annual Areas Percentage, 1982-1989



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The principle behind the Third Life Directive is a mutual recognition of standards. What we're saying in Europe is that whatever you're doing in one country can be used to regulate people across the Community. So, you only need one license now to operate. If you're a U.K. insurance company setting up in Germany or in Belgium, you no longer need authorization from the host country regulators. Products and solvency are purely determined by your home country.

Another very important part of the Life Directive is that it abolishes the power of local governments to actually require prior approval of products. I understand in the U.S., you can't sell business until your controller approves it. That is not the case in Europe. Controlling authorities can still require people to notify them of the products that are sold, but they can't restrict marketing until then. Another important part is that valuations and product pricings only have to be based on "actuarial principles." This has been a great victory for the Dutch and the U.K. actuarial bodies because at one point it was going to be required that the reserving basis and premium basis had to be the same. Also there was talk of a minimum interest rate and a minimum premium charge, but that's been struck out of the draft, making the draft a success.

The directive also abolishes the practice, which happens in many countries such as Italy, of requiring life companies to hold a certain percentage of their assets in government bonds. This has been criticized by some people as being tantamount to making the life policyholders bail out the bad finances of local governments. Now, these changes are going to impose many problems in many countries. So, although July 1994, is the implementation date for most countries, it will take Spain, Portugal and Greece a little bit longer to put their house in order.

It's not all rosy, though. The preamble to the Third Life Directive, which is very interesting, actually says that contract law and tax are so complicated that they're going to ignore it and until those things are sorted out, we're not going to get a single market. The directive also says that even though regulations in the past abolish investment controls and freedom of premiums, people can impose restriction if it's in the general good. Now, it doesn't actually say what the general good is, and until we have cases taken to the European Court of Justice, it's going to be a continuing problem to know what it actually means.

So, in summary, the Third Life Directive is a liberalizing measure, but it is by no means a harmonizing measure. It will have major implications for products if companies are able to introduce new ideas without having the dead hand of prior approval weighing them down. It will have implications for distribution as brokers are able to increase their role in countries where until now they were redundant because of limited product differentiation. It also will have implications for marketing as companies endeavor to meet the extremely varied needs of the consumers from Portugal to Denmark and from Scotland to Greece.

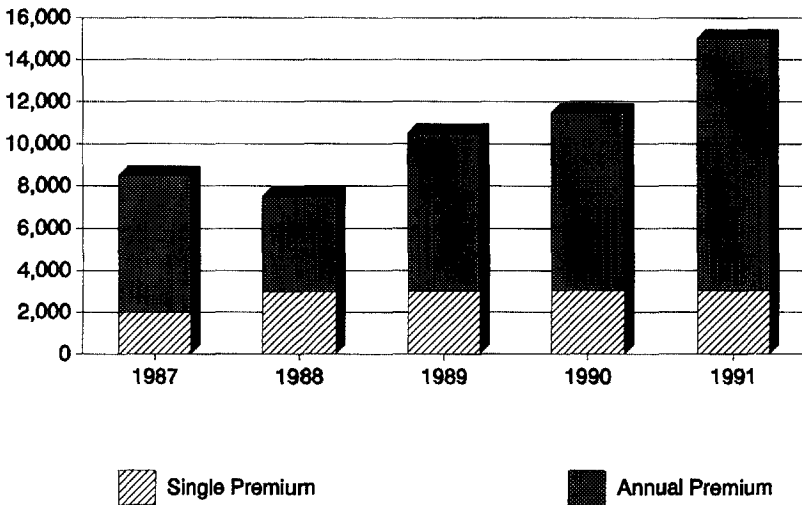
But turning to other pan-European developments, the Bachmann case refers to Herb Bachmann, a German resident in Belgium, who was forbidden to enjoy premium relief and tax relief on premiums paid to a German insurance company, even though he would have if he paid premiums to a Belgium insurance company. That's been upheld by the European Court and shows how tax is still a major hindrance to

achieving a single market. We've also seen some developments on the Pension Fund Directive. They're trying to sort out who can actually administer the assets of pension funds and how to treat ex-patriots. There are quite a few bilateral agreements between various states. The directive is trying to put all those bilateral agreements into a pan-European framework, but the progress so far has been extremely slow. We're also seeing social security systems being cut back in nearly all the states both as a problem of aging population and as of faltering economies. Pensions are being cut back. Health care is being cut back.

So, after that gallop through the pan-European backgrounds, I want to talk about three sample countries to give you a flavor of the different markets we have.

First the U.K. Let's look at some statistics in Chart 11. In recent years the growth has been in single-premium business rather than annual-premium business. Those single-premium products have been either on a unitized-with-profits basis or been put into private pension plans. The lack of growth in annual premium business is not surprising since it's due to our stagnant housing market in the U.K. Mortgage endowments are still a major part of new annual premium. The figures show that endowments backing a mortgage account for about 50% of new annual premium business. As the housing market has ground to a halt, so has the sales of the annual-premium business. Single-premium business hasn't changed much. There has been a rapid change of distribution in the U.K. both in annual and single, but we'll come to that later if we have enough time.

CHART 11
 U.K. Life Insurance Market
 New Business Volumes for Individual Long-Term Business: £ Million



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The Financial Services Act has required agents to either become authorized to sell just the products of one company or else become so-called "best advice" providers. This has cut back the power of the brokers to the benefit of direct sales forces and of banks, but the FSA has also had a second wave of impact. Most recently, in March, the Office of Fair Trading came out with various reports on the marketing of life insurance products. This has suggested that we give potential policyholders a breakdown of their potential surrender value or cash value for each year of the policy and the split of premium between investment and life cover content, persistency rates, expenses in the past and future and so on. This is causing great problems for the U.K. life industry. We're drowning under a regulatory storm. We're also facing increased competition from other savings products, personal equity plans (PEPs) and tax-exempt savings accounts (TESAs). These are an equity-based product and a deposit-based product respectively that have better tax treatment than life policies.

A third major force affecting the U.K. industry is a lack of capital for mutuals and the increased importance of profit reporting for proprietary companies in the wake of the AMP-Pearl takeover, during which there was much debate over how to get stock market values closer to appraised values. Many mutuals have had to resort to being "taken over" (for example FS Assurance, Scottish Mutual and now Scottish Equitable) to solve their capital or lack of distribution problems while many proprietary companies are reviewing their accountancy procedures to boost their share price.

All of this has consequences for products. We're seeing unitized-with-profits products being introduced which are far less capital-intensive products than the other ones on the market. Insurers are trying to develop their risk products to compensate for the lack of savings policies being sold as money goes to PEPs and the TESAs. It's going to impact distribution, as well. I've already touched on the fact that the role of the banks will increase. And we're going to have more transparent contracts as a result of all the regulatory changes.

Germany is a heavily regulated country. Before you introduced a new product, all of your competitors are allowed to study it. When Equity and Law introduced a critical illness product and a unit-linked contract they were discussed within the market before it was allowed to sell them. There's very little variety in distribution; all the great German ingenuity, and the great German engineering, has gone into designing very complex corporate structures to hide the fact that the shareholders are getting a rate of return on their capital. Don't be dazzled by the apparent lack of profitability in the German market; changes are starting to happen. I mentioned that Equity and Law, for example, introduced these new products, but U.K. and Dutch players are also starting to write business through some brokers who operate in Germany. We're also seeing a bank, in particular Deutsche Bank and also Citibank, starting to act as distributors with specially designed products.

Italy is my favorite country. If I just concentrate on the life insurance industry, it is currently a very small and underdeveloped market, but it is growing very rapidly as the economy grows and as people are realizing that government bonds perhaps have more risk than they actually realized. As a result of that growth, people are being attracted to the market. Over the last four years, it has nearly doubled (Table 2).

TABLE 2
The Italian Life Insurance Market

Key Data	Year	Percentage
Life Premiums as % GDP:	1988	0.58%
	1991	0.74%
Growth in premium income:	1990	22.2%
	1991	18.3%
Life companies in market:	1988	66
	1992	over 100

There have been some local changes as well as EC regulatory changes. The most significant of these is perhaps the power of the banks to own insurance companies and vice versa. A major success story in this venture has been Monte dei Paschi di Siena who, with the help of Predica, the French insurance company owned by Credit Agricole has become one of the top 10 life insurance companies in only its second year of operation. The state pension benefit formula has been cut back, and they have tried to introduce a pension law, despite what someone at another session said earlier. The law hasn't actually been approved yet because of the difficulties with the government.

Also, the Second Life Directive has abolished the compulsory session to a state-owned insurance company which will help people have a more transparent approach. But as the government has faced problems balancing its budget, it has actually cut back some of the tax incentives for life business. In particular, tax relief on premiums has been reduced from a marginal rate to a basic rate of taxation, and as a result of all this, we're going to see companies designing new flexible products for group and for personal pensions.

We also will see companies designing new products to counter the invasion of foreign products after July 1994. As companies are trying to grapple with these changes, they are also trying to reduce the influence of the traditional agents who used to have territorial exclusivity. Companies are sometimes achieving this by creating new companies that will sell solely through new distribution channels such as direct sales forces or banks. The products being sold through banks are principally pure savings contracts.

So, having condensed the talk far too much, I want to give my own personal conclusions. We're going to see what I call competition among regulators. Local regulators are going to try to ensure that their local companies are not disadvantaged after July 1994. We've already seen that in Belgium. In January 1993, the new regulation which allowed greater freedom in product design for Belgium companies was actually designed purely because of the impact of the Third Life Directive. As a result of that force, we're going to see increased similarities among products, marketing and distribution, but the very important factors of tax, social security and culture will always prevent a single market, at least in my lifetime. However, the role of the banks, especially as distributors, coupled with the general economic growth of the poorer countries (you must remember that we're trying to achieve a leveling down

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from the rich Germans to people from Italy and Portugal along with the reform of social security), will lead to an overall period of great change, and an opportunity for those insurance companies who are positioned to take advantage of it.

MR. DUKES: David, could you comment on best advice regulations in the U.K. and what your personal opinion is of that and how it affected the broker market and the sales of individual products.

MR. GULLAND: Prior to 1987, the typical Hyde Street broker was taking about 50% of new annual premium business, mainly mortgage-backed. By 1991, it had fallen to nearly 28%. I think that will actually tail-off now. I think we've seen most of the large effect of the FSA, and I think that perhaps those brokers who have left as independents and become tied with those who weren't truly professional brokers anyway, have placed some business with one or two or three companies. I think there will still be a place for the high-quality broker offering a professional service. People are starting to move to fee-based advice rather than commission-based. I'm not sure whether they have been successful, but there are one or two quite important people now who are saying, yes, we'll do it on this basis. There are one or two life companies who specialize in distribution through fee-based agencies as well.

MR. KERMIT L. COX: I have a question for Mr. Troncoso on Mexico. You talked about getting into the country via purchase of a license or getting license approval. Are there other ways that outsiders can get in indirectly, such as through reinsurance?

MR. TRONCOSO: Yes, you can set up a reinsurance corporation in Mexico. I am not the expert in that area, but I know that Lincoln National, Lloyd's and some of the Europeans have a presence in Mexico. You do not need to have a local office, as I understand, to be a reinsurer, but you have to be approved to do business in Mexico. You don't have to have a license, per se, like the licenses that are given to insurance companies, but there is a procedure that reinsurers must follow. The company must still go through the superintendency of insurance. I am not familiar with the actual paperwork, but it is a lot easier than setting up a direct insurance company.

MR. PAUL E. BUELL: I have a question for Mr. Troncoso also. You mentioned that in Panama the regulatory authorities seem to have been using what I interpreted to mean a risk-based capital sort of approach to assure solvency of the players. My question is, what types of companies are being regulated? How simple or complex is the formula that they're using? And how well has it worked to protect consumers from insolvencies?

MR. TRONCOSO: There are several questions there. I have not done a test, per se. I know that they take into account the company's reserves and assets and that the formula is not very sophisticated. They calculate some ratios of solvency based on your capital and liabilities, your premium income, and so forth, for each line of business. I don't have the specifics of the formula. I am not aware of any companies that have been declared insolvent. The government has intervened on several occasions. Mutual of Omaha used to be an insurer in Panama. They sold their business and left. The authorities are now more careful about who is allowed to

enter. Do they plan to stay in for a long time or just come in, make a quick buck, and disappear?

MR. DUKES: I have a question or two that may or may not be of interest to the audience, and I'd like each person to respond to this if they could. Many of the presentations viewed the countries as places where you might want to enter as a company. What about problems or issues associated with repatriating profits?

MR. VIERN: Within Asia, it varies by country, but in Singapore and Malaysia, for example, there is a limitation on what you can distribute to shareholders in proportion to policyholders. That's 80/20, U.K. style rulings. In the Philippines, there are rules as to getting your money out, and you have to wait a long time, and you have to actually apply to pull money out of the country. Some of the other markets may have that, but those three come to mind immediately.

MR. GULLAND: For a U.S. company, there is no difficulty in repatriating profits from any state of the European community, but I think you'll have problems with eastern European states. I know that U.K. companies are having problems with Poland, even though there's an agreement that should help them. I'm not sure about the ex-Soviet Union nations, but the EC isn't a problem at all.

MR. TRONCOSO: In Latin America there's a lot of variety; in Chile, you can repatriate your profits without any problem, but in other places like Brazil you're going to have many problems getting even a penny out. Of course, there's always the ingenuity of some insurance companies creating off-shore companies and captives or using reinsurance contracts to get some of the money out of the countries. You have to be careful that you are following the law in each of the countries when you want to repatriate, and before you get in, try to find out how to get out.

MR. DUKES: One other question. If there is such a thing, what are typical benchmark profit objectives when pricing products in some of these countries, and are these pretax or after-tax?

MR. GULLAND: In undeveloped markets like Portugal, Spain, and Italy, people would be unhappy if they weren't achieving a present value of future profits at about 15-18%, of around 30% of one year's annual premium on regular premium saving-type contracts. In the U.K., new ventures are being set up by building societies and banks. I've been involved in one in which we've actually used an 18% risk discount rate. So, there's a difference in profitability between the U.K. and undeveloped markets.

MR. VIERN: In Hong Kong the after-tax profit margins are probably somewhere between 5% and 8%. None of the companies that I'm aware of price with target surplus incorporated. In northern Asia the premiums are regulated. So, you're told what your premium rates can be. In Malaysia, they've had several tax changes that continually increase the tax base, and they illustrate large persistency bonuses for competitive reasons. I think some of the products would likely be unprofitable. In Indonesia and the Philippines the practices of pricing are probably fairly limited among the domestic companies, but profit margins in the 10% range would not be uncommon.

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MR. DUKES: Is that 10% of present value of premium?

MR. VIEREN: It is 10% average on your premiums.

MR. TRONCOSO: In Mexico there are some insurance companies that do take their asset shares very seriously and try to forecast in particular inflation. They use the present value of one full year's premium as a benchmark because that allows for a lot of variation, particularly with inflation and expenses.

