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EMERGING INTERNATIONAL INSURANCE MARKETS

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This panel will offer a discussion of privatization movements taking place in countries such as India, China, and Argentina. The discussion will address such issues as the changes in laws and regulations, the economic climate, cultural environments, and other factors affecting insurance.

MR. ROBERT V. LYLE: Trying to cover emerging opportunities around the world in 90 minutes is a difficult assignment—virtually an impossible task. However, we will offer some information on emerging markets that we think would be of interest to you.

In the international business we often refer to "life" business versus "nonlife" business. Life business generally means life, health, and pensions, and nonlife means property/casualty.

In many places around the world, particularly in Latin America and Asia, the very positive projected economic growth, coupled with underdeveloped insurance markets, should lead to strong insurance growth. Many people and companies have recognized this as an exciting opportunity in insurance, both on the life and on the nonlife side.

Obviously, no two countries are alike. There are many cultural and market differences, but the fact is that there are many market opportunities out there. The markets we talk about are not necessarily the best emerging markets. That depends on one's point of view, but we think that the markets we will cover here will be of interest and will be good examples of things that we are seeing around the world.

MR. EUGENE M. KALWARSKI: The purpose behind the added technology here is to showcase some specific technology actually brought over to Poland and Albania, and I'll make more sense of that later. In the past few years, there have been enormous changes in eastern Europe, and the pace of change is still quite rapid. It's likely that some of the facts and things I will share with you here will be outdated by the time any of you go over there and do something. The saying over there now is that as the Red army moved back to Russia, it has been replaced by regiments of business people, including consultants and would-be investors. The insurance industry is part of that activity.

Before I begin, I want to let you know that I am an employee benefits consulting actuary. I'm not in the life insurance business. I'm not going to teach you anything technical about product development or other technical insurance matters. I can share with you some of the knowledge, the lay of the land, some of the experiences I've had in getting started, and I'm going to do that by covering background, how I got involved over there, and share with you a case study that we have actually been working on for two years now in social insurance reform. That's in Poland, Albania, soon-to-be Mongolia, and Kazakhstan after that.

I'll relate to you what I do know about the individual life and annuities market. A member of the audience here is from Poland and knows, perhaps, more of that market than I do, but I will share some tips about getting started in eastern Europe.

Six years ago the unprecedented economic reforms brought the centrally planned systems in these countries to a sudden halt. Before then, about nine countries were in the communist bloc, and they had far more in common with each other. Now there are twice as many countries, and they do not have much in common. In fact, eastern Europe no longer is the appropriate term. You need to talk about central Europe, southern Europe, southeastern Europe, the Baltic states, and Russia, which brings you onto the Asian continent.

The people whom I've met over there are very proud of their eastern European heritage, but because of the last 50 years of experience under communist regimes, they tend to be skeptical of some of their domestic products and technology. I've seen this skepticism about the banking system. Many people are still hiding their money under mattresses. There has been a very broad acceptance of western technology that we can bring over there.

As far as economic conditions, most of the countries are in dire straits. The possible exception might be the Czech Republic. As far as life insurance is concerned, life insurance is considered a luxury that is to be deferred until the economic conditions improve.

There is a great deal of instability in eastern Europe. That's to be expected, but changes keep taking place with leadership, not necessarily at the top level. We would work with one group of leadership in the Polish government and after six months start with another group and have to start all over again. If the reforms fail, there's talk that the climate might be right for return to Stalinism, and I'll get into how the U.S. administration is getting involved with that.

The resulting opportunity for Western experience is twofold. First, in population, counting Russia, it is a region with more than 400 million people. Second, there is interest in moving away from the state-controlled industry to a free market system. Currently, the state-run insurance company in Poland, PZU, controls about 90% of the insurance market.

That brings me to my involvement in work over there. One of the areas of expertise that I've been able to bring to the table is the development and exportation of actuarial and economic simulation models. We have had some success in helping state governments here in the U.S. deal with the issue. As a result, the World Bank and the Administration via U.S. Aid, the Department of Labor (DOL), and the International Labor Affairs Board (ILAB) contacted us and got the ball rolling in 1991. I started my efforts in Poland and since then have been in Albania as well.

However, I discovered that having the backing of the U.S. wasn't enough because we needed the confidence of the people in the foreign countries. There was a sense that consultants, such as myself, were like sharks simply after U.S. aid dollars and were not interested in helping the economies over there. The thing that got us over the edge there is that we were willing to export technology. We actually created a model that I'll show you shortly, and we turned it over, hardware and software, to the workers in Poland to let them study their own issues.

The problem that exists there is in the area of social insurance. The problem started in the World Bank. The World Bank makes megaloans to economically developing countries, and in doing so, to justify those loans to the World Bank board, economists, both internal and external who work on behalf of the World Bank, need to convince the board of the ability of these countries to repay the loans. Their economic reform plans have been developed over the years, and many revolved around social insurance, such as their social security systems.

These very technical papers were presented to the governments of these developing countries by the World Bank, and they were asked to implement them. The knowledge was in those papers but the applications did not take place. The people either didn't understand the papers or were resistant to having solutions placed upon them. So, the problem the World Bank had was finding someone to help supplement its economic reform packages so that the people in Poland and Albania could work with them. The administration has another concern. They work through U.S. Aid and the DOL. They want stability and they want it particularly in Poland. There's a concern, again, that if the reforms don't work in Poland, there will be a return to Stalinism.

With horror stories abound of U.S. aid dollars wasted, the World Bank and ILAB sought our help in understanding the social insurance issue, and over a two-year period we created a social insurance simulation model. This particular project started in 1992. We went through an entire round with one Polish government official who took the modeling and didn't share it with anyone beyond her staff. The model was discarded, the person was replaced, and we started all over again in 1993. In 1993, the person we were working with didn't survive a political issue, and in 1994 we started working with another individual. Each time we began working with a new person, he or she would want us to start from scratch and work with a new model.

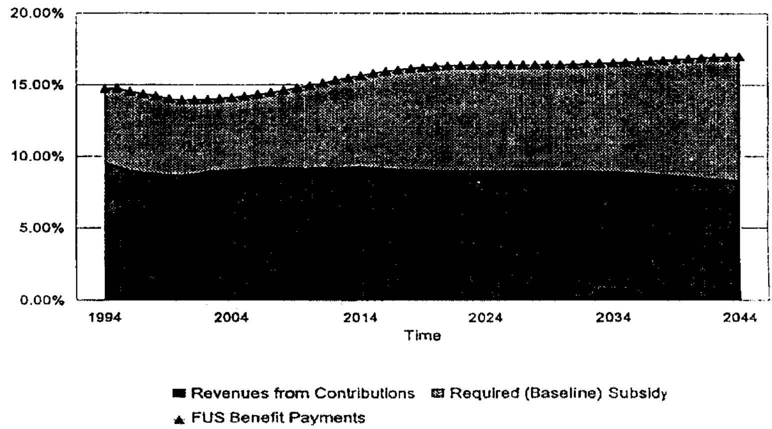
Right now Poland has a model that allows it to analyze its own problem. Within the model there is the ability to click a button and have all the words switched to Polish. The data within this model are demographic, statistical data provided by the Polish government and its equivalent census department. We created the ability for Poland to develop and modify its own assumptions and do the analytical work.

Under Poland's social insurance system there is a benefit equal to 24% of wages regardless of years of service. While working, there is a contribution per year of service that goes to your benefit. This is a defined benefit. There is a noncontributory service when you're not working or disabled. There are minimum and maximum benefits, benefits indexed to wages, and so forth.

We are creating for them right now the design of a second-tier system. They want to move to something similar to what Chile has done and move toward a defined-contribution structure which, in turn, moves toward more privatization.

The model projects benefit outflow as a percentage of the gross domestic product (GDP), and it is running about 15% (Chart 1). It shows the cash contributions coming in each year from the participants and the employers. It also shows the shortfall, which is the deficit that is running each year.

CHART 1
CASH FLOWS OF OLD SYSTEM (FUS)
AS A PERCENTAGE OF GDP



We allow various inputs into the model. They can look at economic assumptions and population assumptions, including total population, remarriage, birth rates, and demographic assumptions in which you can utilize different mortality tables. Finally, the feature they enjoyed working with, and this part has been on Polish television, is that instead of looking at pay-as-you-go, they like to look at population relationships, and this might be interesting to the insurance potential.

I'm going to give you an example by showing you some dependency ratios, which are projected ratios during a 50-year time horizon (Chart 2). There are three lines. The top line shows the ratio, starting in 1993, of the population at ages 15–64 divided by the population of people age 65 and above. You can see the aging of the populations; that is going to make the social reform issue even more difficult to solve. The middle line shows the ratios of the population at ages 15–59 divided by the population at age 60 and above. The lower line is 15–54, divided by 55+. They can change the assumptions and see different results. The model is designed to educate them and enable them to better understand their particular problems.

Chart 3 shows the dependency ratio of people ages 15–64 divided by people age 65 and above for people in the social security system.

Now I'll share with you some of the things I've picked up about the insurance markets in Poland. Because of the problems I described earlier, and especially the bleak economic outlook, it seems to be everyone's hope and desire that privatization will occur in the social insurance area, that insurance products and annuities can be used to supplement the social schemes. Several problems are hindering the privatization effort. One is that the preferential tax treatment that an insurance company would receive is not there yet. The insurance companies are banding together and trying to lobby for that.

CHART 2
POPULATION
POPULATION DENSITY RATIOS

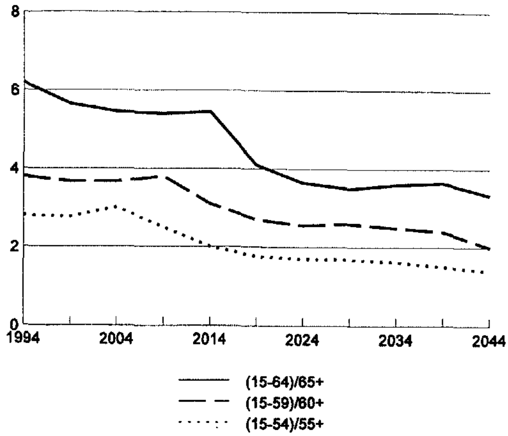
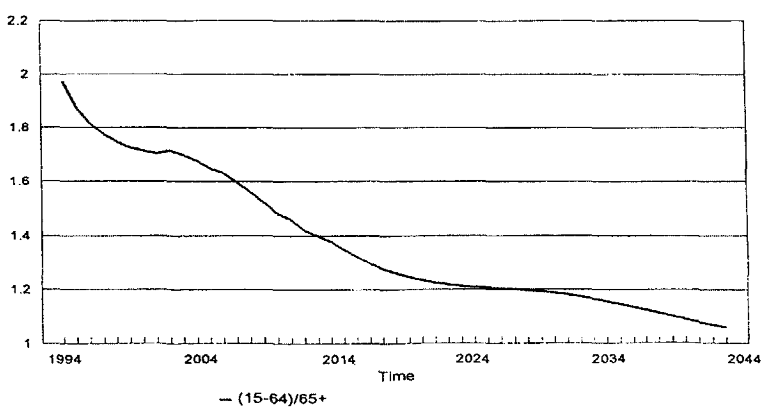


CHART 3
POPULATION
SYSTEM DEPENDENCY RATIOS



Also, there are a number of transition issues that I'll discuss briefly, going from the old power group over there to a free market system. As far as the transition, it's mired in several areas of complexities, and the first is people in government agencies. Many people in the government seem to be slow to move, and as I've perceived it on more than one occasion, that comes from protecting turf. Moving to a free market system is threatening.

Many people in the older and middle generations are getting somewhat angry about the reforms. I am first-generation Polish and have family over there, so I'm hearing that from them and from discussions with other people over there. What I have gleaned is that many older and middle generations think they have worked in the old system all these years, and now that it's their turn to retire and be carried, the system isn't there for them. Many of the younger people appeared very excited about the prospects of the future and freedom, and the question is if they have to shoulder over the next 30–40 years the burden of the social insurance on the older people, are they going to have the energy left to move forward? If not, we're back to square one.

Another obstacle in the economy is that there is no capital market there. I am going to share with you who is doing business over there. Most of these countries—I'm going beyond Poland—previously had a state monopoly, and the state monopoly usually consisted of two companies, one dealing with domestic issues and the second company dealing with foreign business and reinsurance matters. Right now in Poland there are three major companies. One is PZU Life, the former state-run company. It has, I understand, 90% of the market, but the number is probably declining. The second company that's doing well and making a profit, I understand, is Commercial Union, a British firm. The third is Amplico, or AIG, a U.S. firm. There's word that there may be a fast growing Dutch firm over there called Nationale Netherlanden, and there are two French companies, AGF and Azur. There also are several smaller Polish firms.

As far as opportunities in the next decade, when you look at the population percentage as a percentage of the world share, this region that comprises Eastern Europe and Russia has 9.2% of the world population and, for reference purposes, the U.S. has 6.2%. But compare that with premium volume which is 2.4% of the worldwide premium volume versus 38% in the U.S. (these statistics are something that you have to be careful with because of the way in which the information comes). So, clearly, an opportunity exists in this region. The state-owned companies are in decline. Right now it appears that the casualty area, property and auto insurance, are better items than life. The strategy might be, at least short term, to start in the auto and homeowners area and move on from there.

As far as educational issues, let me briefly describe the situation with the actuarial profession in Poland. The Polish Institute of Actuaries began in 1920 and continued up through World War II but ended in 1945. Almost 50 years went by with no professional organization there. In 1991, the Polish Society of Actuaries was founded by Dr. Stroinski, a professor and a consultant with a company called Certum in Poland. Insurance regulations now seem to require life insurance companies to employ actuaries. There is an actuarial summer school at the University of Warsaw. I, along with 20 or more people, have gone there each summer for the past four summers to teach courses.

In getting started, what worked for me was getting connections going, not having a product or something to sell. I had the advantage of something to sell, though, to the

World Bank and U.S. Aid interests. There is a large amount of funding there if you can do something to show them that these economies can be improved. Finally, the private insurance companies are willing to make connections and joint ventures.

My last comment is that being first in these eastern European markets and then spending a great deal of money over many years, hoping for a return, probably is a mistake. But, if you try to enter the market once it's been developed, I think entry will be too difficult. There is potential there, but the tricks are timing and how to enter.

MR. LYLE: Our next speaker is Camilo Salazar, who will speak about Latin America.

MR. CAMILO J. SALAZAR: I'm going to talk about the privatized pension systems in Argentina and Chile. I will try to give a very quick overview of what they are and how they differ from one another.

These statistics might be outdated in about 12 months, but basically Chile has a population of almost 14 million people. Santiago, its capital, has about 3.2 million. The labor force in Chile is somewhere around 5 or 6 million. GDP growth for 1994 was 5.6%. This year it is expected to be about 6.5%. Inflation last year was 12% and this year it is running at about 8%.

Until 1981, state social security was basically a pay-as-you-go system, as we have it in this country. Similar to situations in other countries, the system was financially unsound, and it needed overhauling. Attempts at reform had failed under the economic and political crisis of the Allende government and the prior government. During the Pinochet government in 1980, government spending went up to 11% of GDP, and yet 70% of the pensioners were being paid minimum pensions. In 1981, the new privatized pension system was put in place.

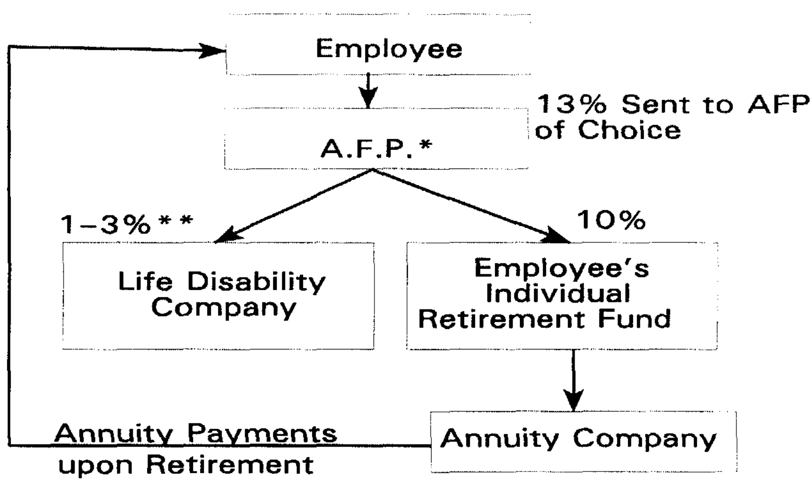
Under the Chilean private system, the employer contribution to the old social security system stopped, and the employer does not contribute to the new system. This is different from Argentina and other models in Latin America. Under the new system there is a compulsory defined-contribution system. Life and disability coverage is paid by the employee through his or her gross contribution. In Chile, workers 45 and older were given three years to choose to switch. When you switch, you stayed—you could not switch back. New workers in the labor force and workers less than 45 years of age had to join the new system.

For new entrants to the workforce under the new system in Chile, the employee contribution for the pension is 10% of monthly salary. This is a fixed percentage for everyone. In addition, there is a surcharge to cover the life and disability benefit and the administration cost for AFP (the pension administration company). This surcharge could typically be as much as 3% but it varies somewhat by AFP.

At the time the system was instituted to compensate the employees funding their own entire social security, the government allowed a one-time salary increase. Because the employers were no longer going to contribute, part of that savings would pass onto the employee. In addition, the employee can voluntarily send in an additional 10% of his or her salary for the AFP, but it's not tax-deductible. To credit past contributions to the old system, the government issued some recognition bonds for those workers who had been under the old social security system and who were switching over to the private system.

Chart 4 basically shows how the system works. The employee makes the contribution to the AFP. The 10% goes into an individual retirement account. The surcharge (typically 1–3%) goes to the AFP (1) to fund the cost of life and disability coverage that the AFP has to purchase from an insurance company on behalf of the participant, and (2) to cover the administrative costs of the AFP. Eventually, when the employee retires, he or she has two options. The first option is what is called a program retirement in which the AFP, based on life expectancy, starts delivering a monthly amount, which may or may not outlast that individual's own mortality. If he outlives that fund, he's out of money. The second option is to roll the amount into an annuity company and purchase a life annuity.

CHART 4
CHILE—FLOW OF EMPLOYEE CONTRIBUTIONS



*Pension fund administration company
**AFP retains portion of 3% for administration costs

At the time of the implementation of this system, more than 90% of the workers switched to the new system when it was introduced. Today, total assets of the systems are close to $28 billion, with monthly contributions in excess of $200 million. In the beginning, 12 AFP companies were approved and started operating. After consolidations and new entries today, there are about 20 AFPs, and they are entering into a second phase of consolidation. About 67% of funds are in the hands of three AFPs, a very high concentration. The total assets under management by all AFPs represent 25–30% of GDP.

In the Chilean economy the employee contributions are, in effect, the largest investments in the capital market, competing with government for investment vehicles. The real rate of return on assets has been approximately 14% during the last 14–15 years. Political pressure to manipulate pension benefits has been eliminated. At the beginning, the unions were very opposed to this sort of thing because it would take leverage from them, and it did. The AFP system has boosted the Chilean economy and has stabilized it.

In the last couple years when the economic problems surfaced in Mexico and Latin America in general, the Chilean economy didn't really suffer because it's not dependent on foreign capital. The center of gravity of the Chilean economy is in the AFP system, being the largest investor in the capital market. So, to a large extent, it has insulated the economy from external factors.

Currently, and again this might be a little outdated by now, the average Chilean income is about $5,400. To date, the average retirement fund is about $7,000. It might be a little higher by now, say $8,000–10,000. The average Chilean has an additional $14,000 in government recognition bonds from the prior system. So, altogether, the average Chilean has about $20,000–24,000 of net worth after having 15 years in the system. With an average income of $5,400 this is, more or less, four to five times his or her income. By comparison, the average income in the U.S. is $36,000 today, and yet the average household wealth in the U.S. is about $37,000, for about a 1:1 ratio.

What is expected to happen in Chile with a trend of even half the historic rate of growth is that the typical Chilean pension fund will exceed the average U.S. household wealth in less than ten years, and yet the disparity in incomes will continue to be there awhile. So, this has been a great wealth accumulator for the average Chilean.

As the returns on pension funds have been high, employees have developed substantial ownership in Chile's private economy and, therefore, they support economic policies that encourage free market and policies. The system itself, with its development and the stake that each employee has in the country, is somewhat insulated from political pressures or popular ideas to change the economic model.

There are some areas of concern. The system is highly concentrated in three AFPs with about 67% of the assets, and it will get even more concentrated, and I'll go into that in a minute. In 1981, 75% of the labor force was covered. By 1990, about 23% of the labor force had not contributed for more than two years, and 34% had not contributed for more than six months. What happens with the system is that the individual retirement accounts are funded with contributions as long as the individual is employed and is actively participating. As time goes on, many people enter and leave the labor force due to unemployment, temporary work, and women leaving the workforce, and there is irregular collection by employers. Even though the system is supposed to offer portability, the transfer of funds and the data sometimes get lost.

Today, about 40% of all accounts in the country are dormant. They have not received contributions for some time. The system does not allow the administrators to take any money out of those funds. You can only get money through the contributions. That creates undue pressure on the administrators to seek active contributors. The problem is that they all chase each other's tails, in a way. The expenditure on marketing to acquire new affiliates from each other and to protect their own affiliates is tremendous.

Here is a piece of news from Bloomberg's recently. Chile's private managed pension fund spent $12.5 million on its sales force in June 1995, 30% more than a year ago. According to a report by the consultant, Provida, one of the largest AFP funds in Chile, spent $1.1 million on its sales force in June 1995, 192% of the previous year's level. About 25% of all monthly contributions by workers to Chilean pension funds goes to the funds' expenses and profits. It is creating a great deal of pressure on the market to do something.

What is happening is that the government will be liberalizing the fee structure. If AFPs want to reward their members for seniority, they can do so in any way they want. One of those ways is to say if you stay with me for more than six months or a year, I will reduce your fees or waive your fees or something of that nature. The larger AFPs can live with that, and the smaller ones cannot. It's already happening in anticipation of that law that the little ones are being sold or are being absorbed by the big ones. The concentration will tend to get worse.

Most of AFP money is in government securities, only 11% is in equities, and 98% of the equities are in privatized state companies. Part of the growth that the funds have experienced during the last 14–15 years, (the 14% real rate of return) has been as a result of investments in newly privatized companies that have grown well, but that is expected to ease off, and the future growth return on the funds is not expected to be as spectacular.

Only 10% of the assets can be invested outside Chile and only on a limited field of choices. That has changed recently. A law was passed that allows AFPs to invest outside the country in emerging markets. Before it was allowed only in mature markets such as the U.S., France, Germany, the U.K. and Japan. Now it has opened up, and a small percentage of funds can be invested in equities in an emerging market. The rate of return again is expected to ease off significantly because the initial benefit of the privatization effort has passed, and now the rate of return is more in terms of worldwide economic growth.

I will talk a little more about the Chilean market before moving on to Argentina. During the last several years, the market was focused on this pension effort, and now it will see tremendous growth on the annuity side because people are starting to retire, after the new program has been in effect for 14 years. At this point, however, 85–90% of the growth in annuities is from people at early retirement ages who are cashing in their recognition bonds. Those bonds were basically granted for people up until their early retirement age. So during the next 5–10 years, all those bonds will be cashed out, and the growth of the annuity market will then be from people going into full retirement.

Currently, many people are cashing out their recognition bond, buying an annuity, and all of a sudden they have two incomes for a while. They don't have to inform their employers. Much of the activity in the annuity market right now in Chile is in the area of early-retirement recognition bond cash-outs.

Argentina is basically three times the size of Chile. It has 33 million people, with about 11 million people in the capital city of Buenos Aires. The labor force has a little more than ten million people. The GDP growth in Argentina in 1993 was 6.8%. Inflation this year has been about 2–3%, after having 5,000% inflation in 1989! The stories that you hear about what it is like to live in an environment like that sound amusing, but for those people who had to live in that environment, it was quite frightening. They were being paid three times a week to keep up with inflation. They would cash their paychecks immediately into dollars at the corner vendor, and that night if you needed to buy milk, they would go cash in enough dollars back into pesos to buy the milk before it went up in price. Their life revolved around hedging their purchasing power constantly, 24 hours a day. So, for the typical Argentinean, talking about the long term has been stretched from a few hours in the late 1980s to perhaps a few months today, but they are still hesitant to move their horizon to a long-term definition of much more than a few months. It is getting better as time passes.

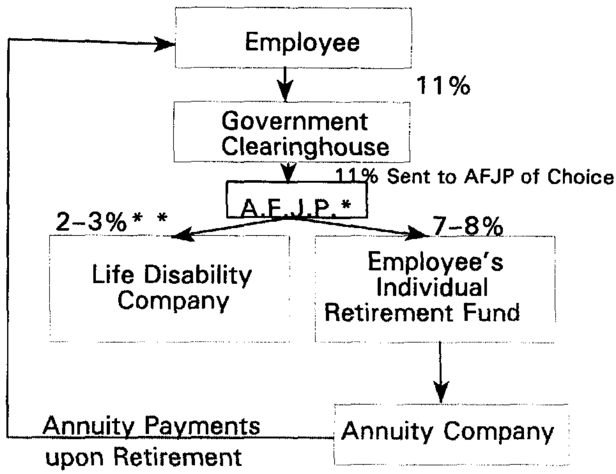
The social security system in Argentina was a pay-as-you-go system, the same as Chile. It was in severe financial difficulty because of the inflationary years. It experienced the same constraints that Chile did. It was basically bankrupt. In 1994 the government instituted a pension system very similar to the one in Chile. However, it was instituted under a democracy, not under a totalitarian regime. What happened is that in the horse trading at the political level some concessions were made and some exceptions devised. As a result, it is not as tight as the system in Chile.

Employer contributions to the old system continue. The employer continues to fund 16% of the employee's salary toward the state social security system. The employer does not contribute to the new system. Employees can continue in the old system or switch to the new. There is no specific three-year transition period, and there's no age limit. Life and disability coverage is similar to the model in Chile. The employee contributions to either the old or the new systems are 11% gross; this is slightly different from Chile. Chile had a fixed amount, and on top of that you add the life and disability cost and administrative cost for the AFP. In Argentina the contributions are capped at 11%, and off of that you subtract life and disability costs and administrative expenses, and what's left goes to savings. There is a maximum of $3800 on monthly salary for making the contributions.

Chart 5 is slightly different compared with the previous one on Chile. The difference here is the government clearinghouse concept. In Chile the money goes from the employer directly to the AFP. By the way, in Argentina they call it the AFJP to be different from Chile. Within 48 hours, the clearinghouse sends the money back to the AFJP of choice of that individual.

The premiums for the life and disability coverage started very high because there was no experience, and the companies did not know what kind of experience to price on, so they went very high. The first six months showed that the experience was about half as much as initially anticipated, so the rates have come down. As a result, the employees' individual retirement accounts are receiving a little bit more out of that 11%. At the end of the process, which is something that will happen over time (it is not really happening yet), the funds will be distributed back to the employee through a life and annuity company. There's another difference here. In Chile the annuity can be purchased from a life and annuity company. In Argentina it has to be strictly an annuity company. In Argentina a life company is not licensed to sell annuities, so a separate entity was created.

CHART 5
ARGENTINA—FLOW OF EMPLOYEE CONTRIBUTIONS



*Pension fund administration company

**AFJP retains 1–2% for administrative costs and profit

The new system was implemented in Argentina in May 1994. Regulations were issued late. The law was passed in November 1993. Regulations started coming out in February 1994 with the formation of a pension superintendency. An individual from the banking regulatory side was brought in. "OK, you're going to be the insurance superintendent starting tomorrow!" This was in late February. He had to put out regulations to license pension administration companies and to define the system, and the system had to start May 1. That was a political date that could not be moved.

So, in three short months the whole system was started from absolute scratch. The government did not educate the public. The education basically came from the pension administration companies. This was very interesting because the people were overwhelmed from one day to the next. April 15, two weeks before the launch, was the day when the pension administration companies could start advertising, and the people were overwhelmed with the attempts to sign them up. They did not have to join the new system, so they basically decided to wait and see because it was too much of a pressure sale to try to get them signed.

There was a very slow and low turnover to the new system. There were 25 AFJPs licensed, and at one point the pension superintendent told me that if he added up the market share that each one of them expected, it added up to about 100 million people, or about 300% of the population of the country! Remember that the labor force is about 10 million people, and the number expected to switch was more like 5–6 million. About two-and-a-half million people signed up. The affiliating period was extended another two months to try to slightly prop up the numbers.

Nobody achieved critical mass, and today nobody really has achieved critical mass. Some are in better shape than others, but the system is, in general, under financial strain. Based on those projections, the AFJPs spent a certain amount of money on advertising and promotional material and promotional activities that did not come close to critical mass. The people were very confused about the system because they did not hear a unified voice. There were some regulations as to how you could advertise your services, but the rules were stretched a little bit, and there was not an objective voice from the government with an explanation of what the system was all about.

The regulatory process was also very inconsistent because there was no experience in this process. Initial regulations were simply copied from the Chilean regulations and in some pages of it there were references to Chile that were not even blanked out. That is how crude the whole thing was. There were many inconsistencies. Eventually new regulations were issued that were half new, and half were corrections of the previous ones. This created confusion in the market for the administrators as well as for the people.

What is expected at this point? Probably a process of consolidation, which has started already. There were 25 AFJPs licensed to operate. At this point there are about 22. A few have already been absorbed. If Chile is any indication of how it can evolve, probably during the next two or three years Argentina will go to a dozen or so and then, from there, it will start increasing again because the potential in Argentina is significantly greater than in Chile. The process is starting to settle down. Experience and expertise are starting to be of benefit, and the process is starting to work a little smoother.

The other aspect of the Argentinean market is that with the kind of inflation that it experienced, life insurance basically disappeared as a local entity, and it became a business for nonadmitted companies operating in Argentina. As the government has opened up the markets to license new companies to operate locally, it is starting to put more pressure on the nonadmitted practice to stamp that out.

Individual life insurance sales are starting to evolve quite rapidly from local companies, especially universal life products. In a presentation, somebody mentioned quite correctly that group and employee benefit products are issued in pesos. Individual life insurance is being issued in dollars, perhaps to attempt to ease the expectations that there might be some devaluation of pesos in the future.

Both markets, Chile and Argentina, are starting to evolve also in terms of employee benefits and payroll deduction markets, which have not been addressed for a long, long time. A great deal of focus and emphasis, has been placed on the pension market both in Argentina and in Chile, and just now the vacuum in the middle is starting to be addressed by some companies going into the areas of employee benefits, group life, payroll deduction, and so on.

MR. LYLE: Our next speaker is John Vieren. John is based in Hong Kong and will talk about Asia.

MR. JOHN C. VIEREN: I have worked in all these markets, and not all are emerging markets. The markets in the northern part of Asia have emerged and are mature. In southeast Asia, with the exceptions of Hong Kong and Singapore, which are mature markets, the others are emerging. Vietnam is basically a nonlife insurance market. Virtually no life insurance is sold there.

I'm going to give you some demographic and economic data on the region as a whole, a small amount of life insurance market statistics, and then I will pick three markets, namely Thailand, the Philippines and China, and talk about those in detail. The reason I picked Thailand and the Philippines is that recent regulatory changes in these countries have allowed the issuance of new licenses for foreign companies. These countries are getting the most attraction from outside or nondomestic companies. I picked China simply because of the potential of it being such a large market that we should not ignore it.

Table 1 shows the GNP per capita for the Asian countries. I am not sure how useful these numbers are because they are so broad, but it may be useful to look at the range of numbers.

TABLE 1
REGIONAL OVERVIEW

Country	GNP per capita (US$)
Vietnam	220
India	310
China	435
Indonesia	780
Philippines	1,010
Thailand	2,315
Malaysia	3,530
South Korea	8,550
Taiwan	11,236
Australia	17,500
Hong Kong	21,558
Singapore	22,520
Japan	38,750

If you were to look at the per-capita income of the capital cities in most of these markets, for example, let's say Indonesia where the average GNP per capita is $780, the GNP per capita in the capital city area would probably be 5–10 times the average for the country. Outside of the capitals, in most of these countries the activity is basically agriculture. I put Australia in there for completeness of the Pacific Rim. These per-capita GNP data are quite correlated with the development of the insurance markets in these countries.

Regarding demographics, what can we say other than there are many people out there (Table 2)! I think this region contains over half the world's population. India and China offer huge potential if these markets open up. Indonesia is the fifth or sixth largest populated country in the world. Japan has a large population and the rest of them, once you get past Korea, tend to be small.

TABLE 2
REGIONAL OVERVIEW
DEMOGRAPHIC FACTORS FOR ASIAN COUNTRIES

Country	Population (millions)
Singapore	3
Hong Kong	6
Australia	18
Malaysia	19
Taiwan	21
South Korea	44
Thailand	60
Philippines	66
Vietnam	73
Japan	125
Indonesia	191
India	904
China	1,194

You will see some life insurance statistics in Table 3. Each of the markets publish, either through the insurance department or through the life insurance association, the premium income by company on a yearly basis. We've kept track of these statistics since about 1988. The reason I don't have 1994 is because they haven't been published yet. These things lag about a year to a year-and-a-half. So there is 1992–93. I've converted the numbers based on the exchange rates at that time, to U.S. dollars.

TABLE 3
LIFE INSURANCE MARKET STATISTICS
TOTAL PREMIUM INCOME
MARKET SIZE (US$ MILLION)

Country	1992	1993
Philippines	286	343
Indonesia	367	506
Malaysia	945	1,160
Thailand	1,145	1,358
Singapore	1,269	1,549
Hong Kong	1,687	2,006
China	1,261	2,654
India	2,577	3,140
Taiwan	7,370	8,645
South Korea	28,091	29,843
Japan	273,426	281,414

An interesting observation is that if you take everything other than Japan and add it up, Japan would be larger than the rest of the region put together. In fact, the largest company in Japan, Nippon, would be larger than the rest of the region put together. If you go upward, South Korea is just about the size of the rest of the region. So that puts things in perspective. I don't know what the life premium income of the U.S. market is, or how that would compare, but it's probably not too far off from Japan. But if you pick any of the top

20 U.S. companies, they are each probably larger than the Philippines at $343 million and most of these other markets on a stand-alone basis.

Table 4 shows the change in total life insurance premium from one year to the other. As you'll see later, most of these markets have very little in terms of group insurance. Annuities are practically nonexistent. Pensions would be included in some of these, but the pension markets are only developed, for example, in Malaysia and in Singapore where there's a central provident fund that is run by the government and is mandatory. Hong Kong is implementing a mandatory pension system, and in the rest of the region the pension business would not be very large.

TABLE 4
LIFE INSURANCE MARKET STATISTICS
TOTAL PREMIUM INCOME

Country	Market Growth Rate
Japan	2.9%
South Korea	6.2
Taiwan	17.3
Hong Kong	18.9
Thailand	18.6
Philippines	19.8
India	21.9
Singapore	22.1
Malaysia	22.8
Indonesia	37.9
China	110.4

I made Table 5 to give you an indication of the status of these markets. This measures ordinary life insurance policies in force. It is the proportion of ordinary individual life insurance policies in force to the insurance-buying population, individuals aged 18–55. It gives you a ratio on the level of saturation.

A figure of 100% would indicate that, on average, everybody in that age category owns one policy. So you can see that the northern Asian markets are matured. Hong Kong is lagging a bit, and the reason is that the Chinese are hesitant to talk about death and life insurance.

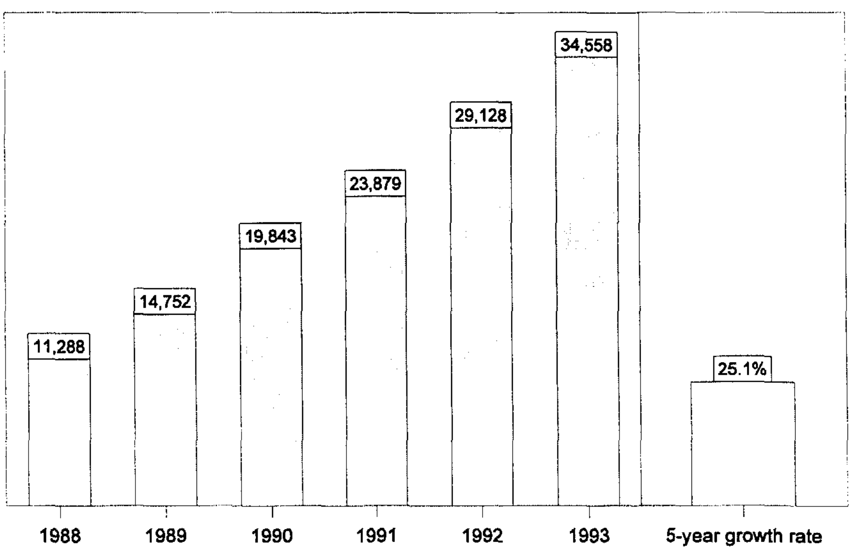
Most of the business in Asia is traditional life insurance, savings and endowment-type business. Practically no term insurance is sold. So, 20-year endowments would be the most popular product in these markets. If you look at the Philippines, India, Indonesia, Thailand, and Malaysia, there is a lot of room for growth.

TABLE 5
LIFE INSURANCE MARKET STATISTICS

Country	Tillinghast Insurance Coverage Index
Philippines	9.8%
India	15.1
Indonesia	16.3
Thailand	18.2
Malaysia	43.0
Hong Kong	66.6
Taiwan	94.2
Singapore	99.2
South Korea	100.3
Japan	336.6

Chart 6 shows the premium income for Thailand, with the five-year compound average growth rate, which is about 25% per year. I could not get statistics on first-year premium. This is in local currency. The exchange rate is about 25 baht to one U.S. dollar. So, remember the compound average annual growth rate of 25%—I'm going to come back to that when discussing the next table.

CHART 6
THAILAND LIFE INSURANCE MARKET
TOTAL PREMIUM INCOME (BAHT MILLION)



There are 12 insurance companies in Thailand (the lowest number of companies in any of the Asian markets). The second lowest number of insurance companies is in Singapore. One new company was started in 1994. It sells to farming cooperatives. The table shows premium 1988–93 so the premium for the new company is not in here.

Table 6 shows you market shares. For those of you who aren't familiar with it, the American Insurance Association (AIA) is the American International Group (AIG). It has the largest market share of any one company in the entire region. The middle column shows the change in the market share since 1988. The last column is the deviation from that 25% or the five-year average growth rate. So, you can see that companies are growing at tremendous rates, some at nearly 50% per year. Interlife has a joint venture with John Hancock. Siam Life was recently joint ventured with the Prudential. Thai Sethakit recently joint ventured with Jardine Colonial Mutual, an Australian company. Foreigners are limited to 25% in any one company.

TABLE 6
THAILAND LIFE INSURANCE MARKET
MARKET SHARE BASED ON PREMIUM INCOME

Company	1993 Market Share	Change in Market Share	Deviation from Sector Growth Rate
AIA	50.1%	7.8%	4.3%
Thai Life	23.1	−1.2	−1.2
Ocean	9.5	−8.2	−146.0
Muang Thai	5.2	−0.5	−2.2
Ayudha	2.8	1.6	24.6
Bangkok	2.4	1.6	28.8
South East	1.7	−1.2	−13.1
Thai Prasit	1.3	−0.8	−11.2
Interlife	1.2	0.2	6.0
Siam Commercial	1.1	0.6	23.4
Thai Sethakit	0.7	0.2	8.2
Siam Life	0.3	−0.2	−9.8

Table 7 splits the market down by line of business. Ordinary life is about 84%. Industrial life, which is kind of like monthly debit business in which agents still go out and collect premiums, is losing significantly. Group is very small. By the way, even in the ordinary lines of business, in most of these markets insurance agents would collect premiums or special collectors would collect premiums from policyholders. As you can see in the last column, group is quite small but it is starting to pick up. As the market matures this will become a more significant number. I think industrial life will disappear.

In Thailand life insurance is not very common but this may be the fastest growing economy in southeast Asia. When you go there, there's construction as far as the eye can see. It's tremendous. So, with the low levels of insurance coverage and healthy economic growth, there is a tremendous opportunity for the future in insurance.

TABLE 7
THAILAND LIFE INSURANCE MARKET
MARKET SHARE AND GROWTH BY LOB

	1993 Market Share	Change in Market Share	Deviation from Sector Growth Rate
Ordinary	83.8%	11.4%	3.7%
Industrial	13.5	−12.4	−15.3
Group	2.7	1.0	12.1

HIV is a problem in Thailand. In the Bangkok area any policy in excess of 750,000 baht, which is about 30,000 U.S. dollars, is underwritten and includes a saliva test. In the northern provinces, where the real problem with HIV exists, all policies are underwritten, and the insurance industry exchanges information. The real problem of AIDS in this market has not yet come to the surface. This will come out during the next decade.

It used to be very difficult for foreign companies to get into this market. Only one new license was issued since 1980 and that was the one previously mentioned, which was issued in 1994. Due to the General Agreement on Tariffs and Trade (GATT) pressures, the market has opened up and has allowed the issuance of new licenses. A window period for applications lasted until October 9, 1995. It ran for about three months, I think, and there were 88 applications for new insurance companies: 44 life and 44 nonlife companies. So, this will be a very interesting market if even a small fraction of those licenses are issued.

Thailand is an environment involving few regulations and very primitive sales practices. An agent on average sells one policy per month. Average premium income is about $700 per policy. One of the observations I think we can make in most of the southeast Asian markets is that the domestic competitors are not very sophisticated in a variety of ways. Two FSAs in this market work in one company, and there are many ASAs. The Thais typically do not progress beyond the ASA level because of the difficulty of using the language.

The Philippines is a much smaller life insurance market as you will see in Chart 7. During the six-year period ending in 1993, the growth rate was about 18%. About 25 pesos equal one U.S. dollar. In this market there are about 27 companies. Table 8 lists the eight largest in terms of market share and then I have combined all the others. Philam Life is AIA or AIG. This is followed by Sun Life (of Canada), then two domestic companies, Insular Life and Ayala Life, then Manulife (of Canada) and then JCMG, which is Jardine Colonial Mutual, the company previously mentioned.

CHART 7
PHILIPPINE LIFE INSURANCE MARKET
TOTAL PREMIUM INCOME (PESOS MILLION)

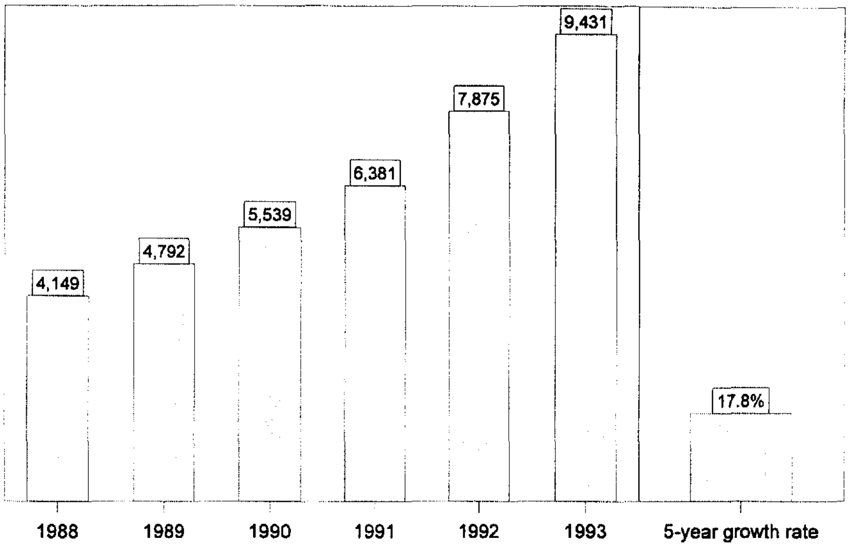


TABLE 8
PHILIPPINE LIFE INSURANCE MARKET
MARKET SHARE BASED ON PREMIUM INCOME

	1993 Market Share	Change in Market Share	Deviation from Sector Growth Rate
Philam Life	30.4%	-4.7%	-3.3%
Sun Life	21.0	6.7	9.3
Insular Life	20.0	0.2	0.2
Ayala Life	4.7	-1.6	-6.6
Manulife	4.6	1.2	7.3
JCMG	3.3	0.4	2.7
United Coconut	3.1	-0.5	-3.1
Grepa Life	3.0	-0.1	-0.5
All other	9.9	-1.7	-3.8

The Philippines has historically had very little interest from foreign companies because of the economic and political instability. It looks as if those things are getting sorted out. The economy is picking up. There is a fair amount of construction going on, but it's still the early days. In the old days foreign companies could buy up to 30% of an existing company. Those restrictions have now been lifted. The government is willing to issue new licenses on a 100% subsidiary basis. It limited the number of new licenses to five this year, and five applications have been made, mostly from U.S. companies. Time will tell as to when they start doing business.

Table 9 shows the change in market share and is a snapshot in terms of deviation from the sector growth. Here there is not nearly as much deviation by company as there was in Thailand. There are more lines of business in this market but, again, ordinary life is most of it. Industrial life is quite small. Group life is 12% in this case, and the rest of this is basically insignificant. There are some changes in market share and growth rates, but these are not very meaningful.

TABLE 9
PHILIPPINE LIFE INSURANCE MARKET
MARKET SHARE AND GROWTH LINE OF BUSINESS

	1993 Market Share	Change in Market Share	Deviation from Sector Growth Rate
Ordinary Life	81.0%	3.1%	0.9%
Industrial Life	2.0	−1.8	−47.1
Group Life	11.9	0.1	0.2
Ordinary Annuities	0.1	−0.1	−117.4
Group Annuities	0.0	0.3	162.8
Ordinary A&H	1.5	−1.0	−23.9
Group A&H	3.6	−0.6	−4.3

The initial capital requirement in Thailand is $20 million (U.S.) and in the Philippines it is $10 million (U.S.), and it has to be paid up front. There is a restriction on repatriation of profits from the Philippines (but not from Thailand). All policies must be issued in local currency.

It is interesting to note that there are actually two life insurance industries in the Philippines. One is the normal one which is regulated by the insurance department. The other is called "preneed," and it's regulated by the SEC. The preneed market basically emerged from a loophole in which companies started selling what was called college assurance plans.

These are a five-pay endowments in which the company promises to pay the educational costs when the child goes to a university. Some of these policies are unrestricted in terms of how much can be paid when the student attends college. Others have a limitation. This has been such a threat to the life insurance industry that most life insurance companies now own a preneed company as well, and typically the same salespeople would distribute the products. This is probably the most heavily taxed market in the region. For example, stamp duty is 5% of premium, and all this is passed on directly to the policyholder.

Chart 8 shows the life and nonlife premium income in China. The exchange rate is about 8.5 yuan to one U.S. dollar. China has had tremendous growth in the last year and 39% during the past five years. Table 10 shows the market shares and segments of the market by line of business. The statistics aren't quite as clear in China as they are in the other markets. PICC is government-owned and is the dominant company, with a 95% market share.

Life insurance accounts for about 30% of the market. As far as I can tell, seven companies operating there: People's Insurance Company of China, China Pacific Insurance Company, Ping An Insurance Company of China, Tian An Insurance Company Ltd., Da Zhong

Insurance Company Ltd., American International Group, Tokio Fire and Marine Insurance Company. The last two listed are foreign companies, namely, AIG and Tokio Fire and Marine. There may be more, but these are, at least, the ones that we know about.

CHART 8
CHINA INSURANCE MARKET
TOTAL PREMIUM INCOME (RMB MILLION)

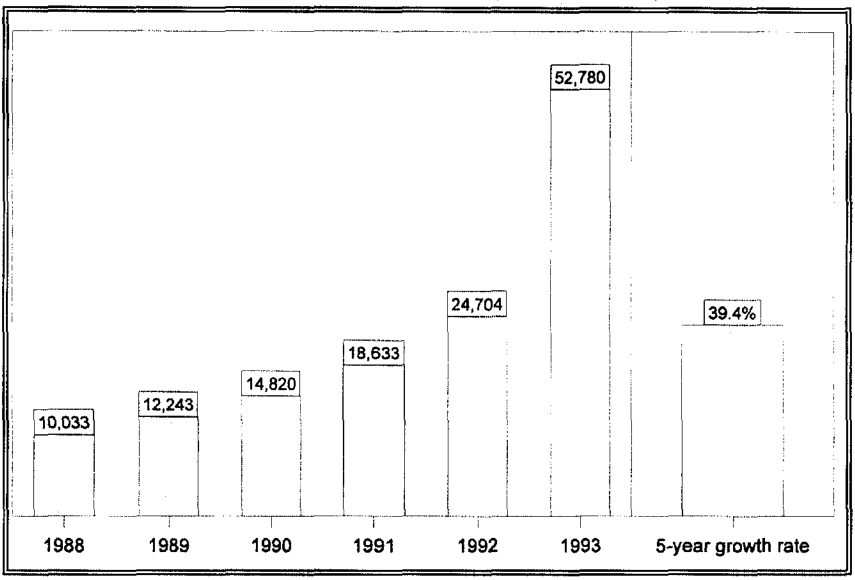


TABLE 10
CHINA INSURANCE MARKET
MARKET SHARE BY PREMIUM INCOME
AND LINES OF BUSINESS

1993 Premium Income	
PICC	94.8%
CPIC	3.4
PAIC	1.8
Lines of Business	
Fire	18.7%
Motor	24.6
Marine	27.2
Life	29.5

The government is encouraging the establishment of new domestic companies on a joint venture basis with foreign companies. Representative offices are not allowed to do anything other than have somebody on the grounds, and at last count, there were at least 80 of these. Typically, they get positioned in Shanghai, Beijing, and in other cities.

There is huge foreign interest in China. Most people who enter the Hong Kong market today do so because they think it will give them an advantage for getting into the China market. I think there is more interest in China than in India. New legislation is out—I don't think it has passed, but I'm not 100% certain on that. Clearly, there is tremendous long-term potential with that population, with the economy growing as it is. The problem is getting in. A concern is the potential instability in the country.

MR. LYLE: Now I will spend a few minutes on India. India is not exactly an emerging market today because it is currently closed for insurance. From a private insurance perspective, you could view it as a sleeping giant; but one that may soon awaken because insurance markets in India may soon open to the private sector.

I will give a brief overview of India, including general and economic factors, and then get into the life insurance industry as it exists today. India is a country that is about half the size of the continental U.S. In physical size India is the seventh largest country in the world. It has the second largest population, next to China, with about 900 million people. It has a fast growing middle class. It depends on how you define middle class, but many people think the middle class consists of as many as 250–300 million, who are beginning to gain disposable income and who could be considered potential insurance customers. In India there is great diversity in culture, people, language, climate, and natural resources. It is the world's largest practicing democracy.

India is organized with governmental units at the federal, state and local levels. There are 25 states. General elections are held at least every five years. The next federal election will take place no later than June 1995. The party in power declares if it wants to have an earlier election. The prime minister is the leader of the majority party in parliament, similar to the U.K. India has a history of having a very stable government. Also, it has a mature legal system and an independent judicial system.

India has experienced fairly steady GDP growth during the last decade, and growth is expected to be in the range of 6–8% during the next several years, through the year 2000. Inflation has been fairly moderate, about 8.5% currently. There is an extensive banking system in place. India is accustomed to western accounting methods. Private consumption has been growing very rapidly, 13% per year in the 1980s, with continuing growth into the 1990s through the end of this decade. I failed to mention earlier that there are many languages spoken in India, but English is the language commonly used in commercial and business circles.

India began initiating wide-ranging economic reforms in 1991, and in many areas that will ultimately affect how the life insurance market develops. Some examples of reform include initiating privatization in many different industries, liberalized trade policy, and efforts to strengthen financial institutions. The primary purposes of these reforms are to unleash market forces in the country, encourage a flow of foreign technology and foreign capital, and make more efficient use of the resources in the country.

Life insurance concepts actually came over from England about 175 years ago. Nonlife insurance came a little later. There was a free insurance market in India prior to 1957 but in that year all the life insurance companies were nationalized. At that time there were actually 245 domestic and foreign life operations in India, and they were all nationalized into the Life Insurance Company of India (LIC). Some years later the nonlife business was nationalized into one company with four regional subsidiaries, called GIC.

LIC is 100% government-owned. It operates in seven zones with more than 90 divisions and more than 1,900 branch offices. In the mid-1970s (the latest numbers I have), there were about 115,000 employees and 521,000 agents scattered around India. LIC offers traditional life products, which are savings-related. Something like 70% of the investments of LIC go into government securities and nonprofit public projects. In effect, LIC, as a state-owned monopoly, has a strong social role in India.

Table 11 shows the growth of life insurance in India from 1957 to 1992–93. Individual policies in force went up very substantially, as did lives in force under group. However, when you consider the 56.6 million individual life policies and the 21 million group life certificates and the fact that some people may have both types of policies in force, only something like 20–25% of the people in that middle class might be covered by some kind of life policy currently.

TABLE 11
GROWTH OF LIFE INSURANCE IN INDIA

	M = Million	
	1957	**1992/1993**
Individual		
In-Force Policies	5.4M	56.6M
Premium Policies	$165.0M	$2,400.0M
Group		
Life		
In-Force Groups	316	59,128
In-Force Lives	0.3M	21.3M
Annuity		
In-Force Schemes	170	3,040
In-Force Lives	8,000	269,000
Total Group Premium Income	9.3M	242.1M

Note: M = Million

Another significant factor is that the average premium for individual life or group is extremely low. In part, this reflects the fact that the GDP per capita is also extremely low in India. Also, annuities are just barely getting off the ground. Also, many people think that the state-owned companies are not very efficient or market-oriented.

Now I will talk about the prospects for the life market in India. A few years ago, the Malhotra committee was commissioned to study the insurance sector and make recommendations. Mr. Malhotra is a former governor of the Reserve Bank in India. After thorough study, the committee came up with the following unanimous recommendations: Allow private sector in insurance, new entrants are to be controlled; minimum paid-up capital of $32 million for new entrants; foreign companies to do joint venture with local partners; principal owner to hold no more than 40%; and an insurance regulatory authority to be set up. The committee recommendations have not yet been accepted. However, there is a good chance that legislation, especially related to the regulatory authority, could be introduced later this year.

Now, what can be expected with privatization? Progress is expected, but not before the 1996 election. These elections are not really expected to slow the move toward privatization but the political scenario is such that no one really expects much movement until the elections take place. Before anyone gets too excited about this opportunity, there is serious opposition to privatizing the insurance sector, and it could generally be classified as the vested interests in India. More particularly, the employees and agents of LIC and GIC do not want to rock the boat. They have a lot of clout. Most people think that privatization will occur, but it will not be overnight. It will be a slow, controlled kind of process. On balance it does whet one's appetite to think about the insurance potential in a country such as India.

MR. STEPHEN F. KRAYSLER: Bob, you gave a number for premium in force of $2,400 million, and there were 57 million policies. Maybe I made a miscalculation, but I came up with about $42 per policy.

MR. LYLE: These numbers come from the Indian Embassy in Washington.

MR. KRAYSLER: That was for the 20% who are insured. One would think that would include the higher-income people. I remember looking in *Best's International* at the Life Insurance Company in India, and I think its ratio of capital and surplus to reserves was less than 1%. This ratio is very, very low. How does it make any money at $42 per policy?

MR. LYLE: I really cannot answer that. You must keep in mind that these are very soft numbers. As was mentioned in an earlier presentation, you have to kind of think about it in a very broad context. It's a point well taken.

MR. MINTU PAL: I came from India quite a while back, close to a quarter of a century ago. India is a peculiar market because most of the life insurance is not actually bought by rich people but by working middle class people. The $42 premium figure mentioned earlier might be a little low. Most of the policies are endowment policies, and LIC is the largest provider of investment funds to the large (one or two dozen) corporations.

India as a life insurance market will not open to the world until government is prepared and it is sure to maintain controls over the insurance industry. However, it is being worked on, and when it is opened up, I think 100% of ownership will be allowed. Last year, 1994, there was an ambassador program from the U.S. to discuss the situation with the Indian government.

For the middle class, which is probably 55% of the population, disposable income is about $3,000 a year to $10,000 a year. The market is a sleeping giant, but it will not be open to the world insurance industry until local government is sure that there will be no chaos. The market was open to the world prior to 1957. Many American companies, including Prudential and Metropolitan, had offices there for life insurance as well as for business insurance. So, yes, there is a possibility sitting out there, but it will not be available to foreign companies until local government is prepared to maintain control.

MR. LYLE: One point I failed to make is that a number of companies, U.S. and European, are looking at India, studying the market, and are also talking with potential partners there.

MR. BRANDT T. BROCK: What do the demographics look like in the Chile market? Are they in any way similar to the U.S. where there is a big age bulge? What would happen to this ballast in the economy if money exits the retirement plans for these individuals?

MR. SALAZAR: The demographic curve of Chile is similar to that of many other countries in Latin America and, to some extent, to that of the U.S. It is a young population, but it is an aging population. You asked what would happen if this money leaves the AFJP funds.

MR. BROCK: Right. If a big population moved into retirement, and monies come out of the program, what might happen?

MR. SALAZAR: The annuity business in Chile is highly regulated because the government, knowing that, is putting the social security welfare of the population in the hands of the private industry and is making very sure that the process is transparent and highly regulated. At some point the monies will flow from an AFP into an annuity company, but the pool of investments behind either one of those two companies will basically be the same. So, it's not like the money will leave the country or disappear into the blue yonder.

Now, obviously the AFPs have a vested interest in retaining those assets, and that's why the option of a preprogram retirement is there. The money would not leave the AFP but would start being cashed out on a life expectancy basis as opposed to rolling it out into an annuity company and purchasing a life annuity. The AFPs do have a campaign to try to say that one's retirement income could be higher with them, which is true. But they don't say is that it is based on a fixed life expectancy, which the individual may or may not achieve.

MR. BROCK: So, would somebody be able to have both, an annuity company payout with the lifetime guarantee and a fixed payout period?

MR. SALAZAR: No, you have to do one or the other. Also, many of the financial groups that own AFPs also own annuity companies. So, at the holding level it doesn't make any difference.

MR. BROCK: My last question is whether they could contribute an additional 10%.

MR. SALAZAR: Yes.

MR. BROCK: I'm assuming, then, that's tax-favored in some way. You said it wasn't pretax, but what about the accumulation earnings?

MR. SALAZAR: Accumulation is tax-deferred, but the contribution is not tax-deductible.

FROM THE FLOOR: I've been working in Poland since the beginning of this year, and I want to share some impressions about Poland with you. This is a complement to Eugene's presentation. When it comes to political instability, if you do business with the government, then I would agree with you that you might get an impression that things keep changing, especially vice ministers. They are on the move. But if you deal with the life companies, and I've been working closely with one foreign life company and some smaller domestic companies, then I think you'll find a healthy business climate.

The life business seems to be growing but the property/casualty business seems to be stagnating a bit. For example, during the last year, there was a 21% increase in premium volume on the property/casualty side versus 25% inflation. On the life side, there was a 39% increase versus 25% inflation. So, I would say that the life side of insurance has been expanding more rapidly, and that's how we feel in general in Poland.

There is no preferential tax treatment of life business. However, a loophole in the tax code allows for social security deductions. It is a similar case to the situation in Russia and in Hungary up until two years ago. In Hungary the government acted very fast and introduced pension legislation. In Russia this situation has not yet been solved.