

# 17 South and East Asian Insurance Market Growth and Development

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## 17.1 INTRODUCTION

Recent economic research, notably by King and Levine (1993a, 1993b), Levine and Zervos (1998), Levine (1999), Levine, et al. (2000), and Beck, et al. (2000), indicates that financial services and its various components, including insurance and banking, have substantial potential for spreading positive externalities throughout the commercial sector of an economy. Such benefits can stem from improved access to capital by firms, better allocation of capital to investment projects, greater risk management, and enhanced portfolio diversification and liquidity for individual investors. While existing economic research shows the development of financial services is generally important for economic growth, a number of previous studies by Outreville (1990) and Ward and Zurbruegg (2000) provide empirical evidence that insurance market development in its own right can promote economic development. The importance of the insurance industry to the wider economy is seen to stem from the relative size of the insurance industry to GDP in many developed economies, the

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<sup>316</sup> The authors wish to thank the editors and an anonymous referee for very instructive and helpful comments in developing this chapter.

transfer of risks, and the scale of insurance companies' financial intermediary functions.

While the link between financial services development and economic growth is well-established, the focus of this chapter is to highlight research that has sought to identify the factors that will promote the demand and supply of the insurance sector. In particular, recent empirical research on insurance markets by Beck and Webb (2003), Browne, et al. (2000), Esho, et al. (2004), and Ward and Zurbruegg (2002) have shown that the level of insurance demand within an economy can be influenced by a number of particular variables, including economic, legal, political, and social factors.

Despite these results, there has been little information presented on which specific factors should be fostered to aid financial development via the insurance market. To address this problem, the objective of this chapter is to present a synopsis of the existing literature and provide some insight on how the development of the South and East Asian insurance market might be achieved. Insurance companies who intend to expand their business activities abroad can also utilize this knowledge to select markets in South and East Asia.

In focusing upon South and East Asia, the chapter is organized as follows: First, the relative size, economic importance, and likely developments of the insurance markets within the region are presented. Second, empirical evidence relating to how demand and supply within the insurance sector can be developed is discussed. Finally, this empirical evidence is then further examined to consider the effects of economic stimulation in the insurance market on insurers operating in South and East Asia.

## **17.2 DEMAND AND SUPPLY OF SOUTH AND EAST ASIAN INSURANCE**

Before delving into the specific demand and supply features of the regional insurance market in South and East Asia, a preliminary statistical review of the countries considered within this chapter is listed in Table 17.1, including 2003 data on population, gross domestic product (GDP), inflation rates, and net written insurance premiums. Net written life and non-life insurance premiums for 1998–2003 are included in Table 17.2. This helps to establish a comparative basis to examine insurance market forces within the region, starting below with an analysis of demand. In many of the emerging markets of Asia, data by underwriting class is unfortunately difficult to obtain. Therefore, in Table 17.3 we only provide a breakdown of non-life underwriting classes for the developed economies of Hong Kong, Japan, and Singapore.

**Table 17.1.** Population, GDP, Inflation, and Aggregate Net Written Insurance Premiums for Countries in South and East Asia, 2003

Country	Population (Millions)	GDP (US\$ Billions)	Inflation (%)	Life Premiums (US\$ Millions)	Non-Life Premiums (US\$ Millions)
Bangladesh	138.1	52.0	5.9	194.0	102.0
Hong Kong	6.8	159.0	-2.1	10,117.0	2,377.0
India	1,056.3	601.0	3.9	13,590.0	3,712.0
Indonesia	214.5	208.0	6.6	1,373.0	1,733.0
Japan	127.0	4,429.0	-0.3	381,335.0	97,530.0
Malaysia	24.7	105.0	1.1	3,455.0	2,154.0
Philippines	81.4	80.0	3.0	702.0	489.0
PR China	1,290.8	1,410.0	1.2	32,442.0	144,468.0
Singapore	4.3	91.0	0.5	5,561.0	3,337.0
South Korea	48.1	621.0	3.5	41,998.0	17,760.0
Sri Lanka	19.2	18.0	7.4	102.0	137.0
Taiwan	22.6	287.0	-0.3	23,739.0	8,662.0
Thailand	62.0	143.0	1.8	3,222.0	1,711.0
Vietnam	81.5	38.0	3.2	331.0	218.0

*Source:* Various National Annual Statistical Reports and Swiss Re (2004a), pp. 37, 39.

*Note:* GDP is gross domestic product.

### 17.2.1 Demand for Insurance in South and East Asia

With the recent growth of the South and East Asian Insurance market, it is no wonder that it is attracting much attention from the global insurance market. Life insurance premiums for South and East Asia reached a phenomenal growth rate of 18.3 percent in 2002 and non-life insurance premiums grew by 13.8 percent in the same period (Swiss Re 2003b). As Figure 17.1 indicates, patterns of growth within the region’s insurance industry suggest that changes in premiums are correlated with GDP growth, and with GDP predicted to grow at a real rate of 5.7 percent per annum between 2003 and 2006, this growth is likely to continue (Swiss Re 2003b). This link between GDP and demand for insurance can be explained through the S-curve relationship (Enz 2000), which indicates that as GDP grows, people begin to have sufficient income and assets to warrant insurance protection. This leads to a steep increase in insurance demand greater than the growth in GDP. However, eventually, as more and more people reach a level where they have already attained insurance, growth in premiums stabilizes. This particular level tends to be different depending on the social security system in place within the particular country.

Table 17.2. Life and Non-Life Net Premiums, 1998–2003

	1998		1999		2000		2001		2002		2003	
	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP
Bangladesh	75.00	N/A	76.00	0.22%	130.00	0.28%	129.00	0.28%	175.00	0.28%	194.00	0.37%
Hong Kong	4,680.00	3.26%	5,771.00	3.63%	5,969.00	3.73%	8,404.00	5.13%	8,400.00	5.20%	10,117.00	6.36%
India	5,463.00	1.90%	6,066.00	1.40%	7,615.00	1.77%	9,418.00	2.15%	11,515.00	2.59%	13,590.00	2.26%
Indonesia	487.00	0.62%	927.00	0.66%	816.00	0.54%	773.00	0.53%	1,135.00	0.66%	1,373.00	0.66%
Japan	363,393.00	9.35%	392,908.00	8.87%	400,993.00	8.69%	356,731.00	8.85%	354,109.00	8.63%	381,335.00	8.61%
Malaysia	1,610.00	1.90%	1,774.00	2.16%	2,671.00	2.13%	3,082.00	3.38%	2,921.00	2.94%	3,455.00	3.29%
Philippines	473.00	0.72%	585.00	0.76%	590.00	0.79%	493.00	0.69%	681.00	0.87%	702.00	0.88%
PR China	9,031.00	0.86%	10,535.00	1.02%	10,476.00	1.12%	15,556.00	1.34%	25,202.00	2.02%	32,442.00	2.30%
Singapore	2,670.00	3.53%	2,762.00	3.19%	2,942.00	3.12%	2,914.00	3.33%	6,111.00	2.55%	5,561.00	6.11%
South Korea	35,703.00	10.32%	35,638.00	8.39%	44,237.00	9.89%	36,392.00	8.69%	40,182.00	8.23%	41,998.00	6.76%
Sri Lanka	71.00	0.45%	69.00	0.43%	87.00	0.53%	83.00	0.53%	91.00	0.56%	102.00	0.57%
Taiwan	11,928.00	4.56%	13,968.00	4.83%	15,771.00	5.10%	16,953.00	5.66%	20,767.00	7.35%	23,739.00	8.27%
Thailand	1,362.00	1.21%	1,619.00	1.28%	1,883.00	1.53%	2,127.00	1.86%	2,219.00	2.09%	3,222.00	2.25%
Vietnam	15.00	0.06%	N/A	N/A	91.00	0.12%	169.00	0.52%	302.00	0.87%	331.00	0.87%

Table 17.2 (continued). Life and Non-Life Net Premiums, 1998–2003

	1998		1999		2000		2001		2002		2003	
	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP	Premiums (US\$ Millions)	% of GDP
Bangladesh	80.00	N/A	78.00	0.22%	75.00	0.21%	81.00	0.18%	92.00	0.18%	102.00	0.20%
Hong Kong	1,834.00	1.13%	1,727.00	1.09%	1,829.00	1.13%	1,987.00	1.21%	2,342.00	1.45%	2,377.00	1.49%
India	2,177.00	0.71%	2,325.00	0.53%	2,338.00	0.55%	2,459.00	0.56%	3,149.00	0.67%	3,712.00	0.62%
Indonesia	666.00	0.65%	1,054.00	0.76%	977.00	0.64%	868.00	0.60%	1,415.00	0.83%	1,733.00	0.83%
Japan	101,977.00	2.38%	91,999.00	2.30%	102,521.00	2.23%	89,114.00	2.21%	92,032.00	2.24%	97,530.00	2.20%
Malaysia	1,399.00	2.12%	1,414.00	1.72%	1,486.00	1.59%	1,636.00	1.80%	1,960.00	1.97%	2,154.00	2.05%
Philippines	446.00	0.78%	466.00	0.61%	471.00	0.63%	414.00	0.58%	474.00	0.61%	489.00	0.61%
PR China	6,035.00	0.63%	6,295.00	0.61%	7,228.00	0.67%	9,928.00	0.86%	11,760.00	0.96%	144,468.00	10.25%
Singapore	1,027.00	1.08%	944.00	1.09%	1,024.00	1.09%	1,091.00	1.25%	2,799.00	2.36%	3,337.00	3.67%
South Korea	10,970.00	3.55%	12,291.00	2.89%	14,112.00	3.16%	14,145.00	3.38%	16,526.00	3.38%	17,760.00	2.86%
Sri Lanka	117.00	0.74%	112.00	0.71%	110.00	0.68%	106.00	0.68%	121.00	0.74%	137.00	0.76%
Taiwan	4,973.00	1.90%	6,009.00	2.08%	7,075.00	2.29%	7,299.00	2.49%	7,956.00	2.81%	8,662.00	3.02%
Thailand	1,198.00	1.08%	1,208.00	0.95%	1,211.00	1.00%	1,239.00	1.08%	1,928.00	1.15%	1,711.00	1.20%
Vietnam	126.00	0.45%	N/A	N/A	127.00	0.41%	146.00	0.44%	205.00	0.58%	218.00	0.57%

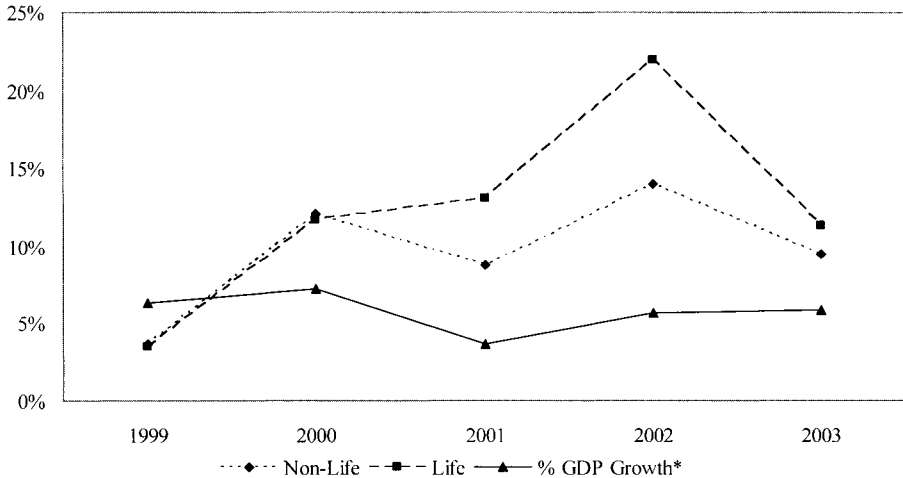
Source: Swiss Re (1999), pp. 25, 27, 29; Swiss Re (2000), pp. 29, 31, 33, 33; Swiss Re (2001a), pp. 33, 35, 37; Swiss Re (2002a), pp. 31, 33, 35; Swiss Re (2003b), pp. 33, 35, 37; Swiss Re (2004a), pp. 37, 39, 41.

Note: Insurance penetration rate is defined as net written insurance premium divided by GDP. N/A is not available.

**Table 17.3.** Distribution of Net Written Premiums by Line, 2003 for Developed Countries in South and East Asia (% of Total)

	Aviation-Cargo	Marine-Hull & Liability	Fire	Motor	Workers' Compensation	Miscellaneous	TOTAL
Hong Kong	4.90%	3.10%	16.90%	15.70%	21.50%	37.90%	100%
Japan	2.20%	0.70%	16.50%	54.60%	17.30%	8.70%	100%
Singapore	6.30%	3.20%	10.80%	37.70%	7.90%	34.10%	100%

Source: Singapore MAS (2005), General Insurance Association of Japan (2004), and the Hong Kong, Office of the Commissioner of Insurance (2004).



Source: Datastream International (year) for GDP. Swiss Re (1999), p. 25, 27, 29; Swiss Re (2000), pp. 29, 31, 33; Swiss Re (2001a), pp. 33, 35, 37; Swiss Re (2002a), pp. 31, 33, 35; Swiss Re (2003b), p. 33, 35, 37; Swiss Re (2004a), pp. 37, 39, 41 for insurance premiums.

Note: Data for 1999 excludes Sri Lanka and Vietnam.

**Figure 17.1.** % Change in Net Written Insurance Premiums and % Change GDP, 1999–2003 (Adjusted for Inflation)

Table 17.4 provides evidence of the increase in premiums in most of the countries in South and East Asia. In particular, China has seen outstanding growth in premiums for both life and non-life insurance, at 62.2 percent and 20.1 percent in 2002, respectively (Swiss Re 2003b). This is not surprising when considering the changing socio-economic structure of the Chinese population. A rising middle class with a greater income to protect has opened a new market for insurers. Assisted by a decline in restrictive regulations, insurers have been able to offer more insurance products to this developing middle class resulting in a higher growth rate in

premiums. The threshold where GDP growth will begin to outpace premium growth has yet to be reached, and hopeful insurers in this market will continue to capitalize on this opportunity until it is attained.

**Table 17.4.** The Percentage Growth in Net Written Insurance Premiums in South and East Asia, 2001–2003

	2001		2002		2003	
	Life	Non-Life	Life	Non-Life	Life	Non-Life
Bangladesh	-0.4%*	-0.4%*	4.1%*	4.1%*	10.8%*	10.8%*
Hong Kong	43.2%	10.4%	18.8%	22.3%	22.8%	3.5%
India	22.5%	3.3%	14.1%	21.4%	8.4%	8.2%
Indonesia	3.9%	3.5%	11.7%	9.1%	20.5%*	20.5%*
Malaysia	13.8%	2.2%	-9.1%	13.4%	16.9%	8.7%
Philippines	-9.4%	4.3%	17.0%	13.2%	3.2%*	3.2%*
PR China	47.4%	11.4%	62.2%	20.1%	27.2%	21.6%
Singapore	1.9%	9.6%	4.2%	26.6%	-11.9%	6.5%
South Korea	-11.9%	7.4%	0.7%	6.5%	-2.0%	0.7%
Sri Lanka	-4.4%*	-4.4%*	5.8%	13.0%	12.8%*	12.8%*
Taiwan	16.4%	11.3%	25.2%	11.4%	14.2%	8.8%
Thailand	23.1%	11.3%	19.8%	12.6%	15.4%	11.6%
Vietnam	95.3%	21.5%	61.1%	36.4%	8.9%*	8.9%*

Source: Swiss Re (2002a), pp. 31, 33; Swiss Re (2003b), p. 33, 35; Swiss Re (2004a), pp. 37, 39.

Note: \* Not adjusted for inflation.

In general, South and East Asian countries have relatively high savings rates. The financial volatility experienced within the region’s previous decade has meant that people are looking for safer options to invest their savings, and insurance has recently been seen as one way to reduce risk. By capturing a wide customer base, insurance companies have been able to diversify this risk on behalf of the investors within the region. A culture of self-reliance within many of these countries has also fueled the demand for insurance. As faith in the ability of some governments to provide for people in later life fades, people are procuring insurance policies to ensure their well-being. Also, as with much of the world, an ageing population in South and East Asia is driving demand for pension and investment-linked insurance products, either through direct personal investment or through governments searching for ways to fund their pension schemes.

The 1997–98 financial crisis in the region has had numerous effects on the insurance industry, one of which is the increased emphasis on risk awareness and risk minimization. Initially, the real estate market experienced a downturn that significantly changed the security holdings of banks. Additionally, bad corporate debt instigated the collapse of many banks within the region (Roubini 2004). As a

result, the currencies within Asia started to plummet and central banks unsuccessfully tried to support their weakened position. As international funds were being funneled out of the region, and assets were declining in value, companies, governments, and the public within the region became more aware of the risks of investing and relying on established financial bodies to provide good credit assessments. For the insurance industry, this has fueled an increase in demand as a currently limited, but growing public awareness of insurance develops.

Another factor that has enhanced awareness was the Severe Acute Respiratory Syndrome (SARS) epidemic, which first appeared in Southern China in November 2002 and spread to Canada, China, Taiwan (China), Germany, Hong Kong, Singapore, Slovenia, Thailand, Vietnam, and the United Kingdom by March 2003 (World Health Organization 2003). In particular, SARS has increased the necessity of health-related insurance, and although initially having a marginally negative impact on demand where travel is a major component, it should stimulate further demand for insurance. Furthermore, due to other events such as the Indonesian riots in 1998, the 1999 earthquake in Taiwan, and the tsunami that struck several South and East Asian countries in late 2004, a need to insure against the risks of both natural and man-made disasters has become apparent within the region.

There are differences in the demand for both commercial and personal non-life insurance that are often dependent on the country's stage of development. More rapidly developing countries such as China, India, and Indonesia found a greater proportion of their demand came from commercial insurance in 2001 when compared to their counterparts (Swiss Re 2003a). This is partly due to the lack of awareness for personal insurance and the low income of members of the general population. However, as stated previously, this is changing. Additionally, the rise in total premiums may be due to a relative increase in the price of commercial premiums compared to personal insurance.

In summary, the growth of GDP, changes in socio-economic structures within the region, the increased awareness of the need for insurance, and the need for risk minimization highlighted by recent damaging events have led to an increased demand for both life and non-life insurance within the South and East Asian region. Nevertheless, coupled with this ongoing increase in demand, is an unlocking of the supply of insurance for this region, which is explored in following section.

### **17.2.2 Supply of Insurance in South and East Asia**

Both Singapore and Hong Kong have well-established insurance markets and, due to the deregulation of financial markets, insurance markets in other countries within this region have also begun to grow over the past five to ten years. Changes to the structure of companies and the regulatory environment have been pivotal in opening new avenues for the supply of insurance within the region.

#### ***Structure of Insurance Companies***

The structure of insurance companies can be defined in several ways, namely, whether they are domestic or foreign, government-owned or private, listed or non-listed, or by their size. Data on the market share held by government and foreign owned insurance companies are listed in Table 17.5. Also, broadly speaking, within



South and East Asia’s non-life insurance market in 2002, 39 percent of companies were foreign (including joint ventures and branches) versus 61 percent domestic companies (Swiss Re 2003a). Interestingly, this 39 percent of companies represents only 10 percent of the dollar share of net written premiums within the region. These divisions vary widely depending on the country of focus. For example, in Singapore 52 percent of the premiums are held with foreign companies, whereas, only 0.6 percent are held by foreign companies in South Korea (Swiss Re 2003a). The opening of insurance markets to foreign companies has allowed investment of much needed capital into the region, where the effects of the Asian financial crisis of 1997 and sluggish world investment market continue to linger.

**Table 17.5.** Market Shares of State and Foreign Owned Insurers (Net Premiums Written), 2003

	> 50% state owned		> 50% foreign owned		≥ 50% foreign owned	
	Life	Non-Life	Life	Non-Life	Life	Non-Life
Bangladesh	N/A	N/A	N/A	N/A	61%	29%
Hong Kong	0%	0%	87%	74%	N/A	N/A
India	92%	86%	0%	0%	33%	12%
Indonesia**	10%	10%	48%	25%	48%	25%
Japan	N/A	N/A	N/A	N/A	58%	53%
Malaysia*	0%	0%	71%	25%	N/A	N/A
Philippines*	0%	0%	61%	29%	N/A	N/A
PR China*	57%	72%	2%	1%	41%	7%
Singapore*	0%	0%	58%	53%	87%	74%
South Korea	23%	4%	10%	1%	2%	1%
Sri Lanka	N/A	N/A	N/A	N/A	56%	6%
Taiwan	11%	0%	33%	12%	10%	1%
Thailand*	0%	N/A	N/A	N/A	N/A	N/A
Vietnam	44%	94%	56%	6%	81%	25%

Source: Swiss Re (2004b), p. 40.

Note: Market share is calculated using the total premium volume of those firms with ≥50% ownership. > (≥) highlight the % held by firms with exactly 50% foreign ownership or equal ownership (greater than 50% ownership) for some countries. \* Ownership data is from 2002.

\*\* Ownership data is from 2001. N/A is not applicable.

Between 1997 and 2001, the performance of foreign companies was more impressive than domestic companies, with growth in premiums for foreign firms amounting to 5.3 percent, whilst domestic companies experienced a slight decline (Swiss Re 2003a). Despite this, domestic companies have experienced greater profit margins, albeit, they have not had to incur the start up costs that foreign insurers have. Foreign companies have also shown a better ability to assess risk within the region with lower loss ratios in most countries. However, this is only within the

short-term as foreign firm admittance is relatively recent and long-term losses may not yet be apparent. In general, there are no discernable differences between the types of businesses that foreign and domestic insurers underwrite, with the exception of motor insurance, which is more prevalent in the domestic realm.

Within environments characterized by deregulation, consolidation, and a decline in government ownership, the withdrawal of underwriting restrictions and premium controls have provided an increasing opportunity for insurance companies to become progressively more commercially driven and strategically focused. Large insurance companies have generally taken the initiative, now representing 8 percent of the insurance companies in the region, but holding 70 percent of the dollar share of premiums.<sup>317</sup> As with many markets, the large consolidated firms have been able to utilize their economies of scale and breadth of expertise to become more competitive. This push for consolidation has meant that a considerable number of smaller companies have become prime merger and acquisition targets for the large insurance companies. Large companies may also be able to diversify to a greater extent when compared to the smaller companies. However, they tend to follow regional market trends, which would not make them as resilient as global companies when considering shocks such as the Asian economic crisis. An indication of the degree of market concentration in the non-life sector is provided in Table 17.6.

**Table 17.6.** Non-Life Insurance Market Concentration, 2001

	Total Number of Insurers	Market Share of Top Five
India	5	100%
China	17	98%
Vietnam	10	90%
South Korea	17	78%
Japan	57	54%
Taiwan	27	48%
Thailand	71	39%
Indonesia	104	39%
Singapore	45	38%
The Philippines	112	32%
Malaysia	50	32%
Hong Kong	125	28%

*Source:* Swiss Re (2003), p. 27.

*Note:* Market concentration is measured in terms of 2001 net written premiums.

Public ownership is on the decline, particularly within the previously protected markets such as China and India, where 90 percent of non-life insurance business is undertaken by government-owned entities (Swiss Re 2003a). Like any other public entity, non-profit objectives are often sought and subsidizations of rural services take

<sup>317</sup> Large companies refer to the top 1–5 firms within the country.

place within government-owned insurance companies. However, now that the markets are opening to private companies, it is likely that these matters will receive lesser consideration. Interestingly, performance of government-owned insurers is surprisingly consistent with their private counterparts (Swiss Re 2003b). Nonetheless, this may be attributed to their greater ability to secure government business (Swiss Re 2003a) and use of established distribution networks and databases. It is also worth pointing out that in Islamic nations there is a general preference for mutual insurance, which is a form of risk sharing. This would be in contrast to private, profit-seeking insurance companies that profiteer from speculation on life expectancies through the issue of price-related premiums, which does not conform well to Sharia Islamic law.

### ***The Regulatory Environment***

The World Trade Organization (WTO) has made a significant impact in the South and East Asian region by encouraging insurance market liberalization. In particular, market deregulation is breaking down barriers for foreign insurers and creating a more market-based system in countries such as China, India, Taiwan, Malaysia, and Thailand.

In China, amendments to the 1995 Insurance Law, stipulate a market-based insurance system where companies have more control over their policies and premium rates (Allens Arthur Robinson 2003). The introduction of new regulation on the administration of foreign-invested insurance companies (China Insurance Regulatory Commission 2004) also provides more detail for foreign companies who wish to enter the market. Although restrictions still remain, there have been a number of foreign licenses granted and this step is seen as an indication of further liberalization to come.

Another country that has undergone substantial deregulation is Thailand. It has gone from a market where a limited amount of foreign investment has been allowed to a market that encourages foreign capital and involvement. There is considerable foreign involvement in the Thai insurance market with much of the foreign investment in complex share agreements and joint venture structures. The reason for this complexity is that foreign insurance companies are limited to a 25 percent holding in any Thai insurance company; and there are still restrictions on direct foreign investment, where companies with sole licenses can only operate from one location unless they are in a joint venture with a Thai insurance company (Allens 2003). Also, until 2004, motor vehicle insurance was not compulsory in Thailand. The introduction of compulsory motor insurance will obviously increase the market and, if further commitments to WTO agreements are met, this should allow a greater opening of this large sector of the Thai insurance industry to foreign investment.

De-tariffication of the non-life sector is particularly relevant in China, Taiwan, and India. Tariffs are placed on most lines of insurance within India, with fire (22 percent) and motor insurance (38 percent) being the most prevalent insurance provided (The Tariff Advisory Committee 2004). Currently, information regarding claims is not complete and this means that the tariffs set by the Tariff Advisory Committee are based on assumptions rather than calculated risk estimates. Reforms are in place to change the tariff-based system to a risk-based premium setting, which will assist in a better match of assets coming in to the risk being taken.

In general, both the life and non-life insurance markets in South and East Asia are becoming more liberalized, although some countries are far more regulated than others. Given the above discussion of the overall structure and developments in the insurance markets in South and East Asia, there is a particular trend in the regional market that deserves particular attention, the recent rise of bancassurance.

### **17.2.3 The Rise of Bancassurance**

Career agents are agents that are usually licensed to write insurance exclusively for one company and are employed as the most common form of distribution for insurance in South and East Asia for both life and non-life insurance (see Tables 17.7 and 17.8, respectively) (Swiss Re 2002b). Although their prevalence as the primary means of distribution was a result of their ability to capture a dispersed customer base with a physical presence, there are other burgeoning alternative avenues for distribution such as direct marketing, insurance brokers, financial planners, and the topic in question, bancassurance, which is when a bank distributes insurance products. Although only a small percentage of both the life and non-life insurance markets, bancassurance is now a fast-growing distribution channel in South and East Asian markets. The bancassurance market may seem to contribute to only a small percentage of the insurance market as a whole. However, as Figure 17.2 indicates, it varies greatly among individual country markets. For example, the life bancassurance market is as high as 26 percent in Singapore and the non-life bancassurance market as high as 16.7 percent in Hong Kong (Swiss Re 2002b).

Life insurance is the most common type of insurance sold through banks, which can be attributed to its similarity with other financial products sold by banks, such as mutual funds and time deposits. The main products offered in the life bancassurance market are whole-life, term-life, health/disability, retirement/pension insurance, endowments, annuities, and policies linked to loan agreements. The benefit of tying the bank's existing financial products to insurance also influences the types of insurance products offered. The majority of bancassurance products are linked in some manner to deposits, mortgages, or other investment products. In some cases, entirely new insurance products have been created, such as depositor's insurance, which provides a payout in the case of an event (i.e. death) that is a multiple of the depositor's cash balance and over-draft insurance, which provides payment of an existing overdraft in case of a stipulated event (i.e. death) (Munich Re Group 2001). However, the similarity of some of these products to existing bank products should cause some concern, as there is a risk that substitution may take place.

Although a smaller section of the bancassurance market, non-life insurance offered by banks also includes a wide variety of products. This includes fire insurance, home insurance, and in some cases travel and accident insurance. Once again these products are linked to the banks' existing products. For example, home insurance is typically linked with mortgage loans. The motor insurance market is one form of non-life insurance that has not been developed heavily by the South and East Asian bancassurance merchants, as it is less related to the banks' existing products.

**Table 17.7.** Percentage of Direct Life Insurance Premiums by Distribution Channel, 2002

Country	Year	Career Agency & Direct Sales Force	Brokers	Direct Marketing	Bancassurance	Others
China	N/A	Main Channel	Insignificant	Insignificant	> 20% in Major Cities	N/A
Hong Kong	N/A	Main Channel	Insignificant	<1%	15.10%	N/A
India	N/A	Main Channel	Effectively Prohibited	Insignificant	<5%	N/A
Indonesia	2000	Main Channel	About 1%	Insignificant	Negligible	N/A
Japan	N/A	Main Channel	Insignificant	<1%	<1%	N/A
Malaysia	1998	86%	0.60%	2%	6%	4%
Philippines	1998	75%	1.80%	1%	Not Allowed	3%
Singapore	1998	77%	Insignificant	<0.5%	26%	1%
South Korea	N/A	Main Channel	<1%	Insignificant	Not Allowed	N/A
Taiwan	1998	93%	4.40%	1%	1%	2%
Thailand	1998	97%	<0.5%	Insignificant	2%	N/A
Vietnam	N/A	Main Channel	Small	0%	<1%	N/A

Source: Swiss Re (2002), p.35.

Note: N/A is not available.

Varying degrees of regulation in different countries also dictate the use of this form of insurance distribution. Countries such as Singapore and Hong Kong have been using bancassurance for some time and have little or no restrictions as opposed to countries, such as South Korea, where bancassurance is gradually being introduced through the staged relaxation of rules (Asia Insurance Review 2005). Where restrictions do apply, they are quite varied between countries. For example, in Thailand, the restrictions are focused on particular products and licenses. For instance, a bank cannot issue non-life insurance products unless it is under a brokerage license and until recently, an insurance company was not permitted to pay commissions to banks (SCOR 2003). Alternatively, in China, restrictions focus on the parties of the arrangements, where it is often stipulated that insurers have to deal with each bank branch individually. In South Korea, the introduction of bancassurance has been gradual and restrictions have focused on the types of insurance products permitted to be sold by banking institutions (Asia Insurance Review 2005). Overall, restrictions governing affiliations between banks and insurance companies as well as restrictions on the distribution of insurance products by non-insurers have been relaxed after the introduction of market liberalization, thus contributing to the rise of bancassurance.

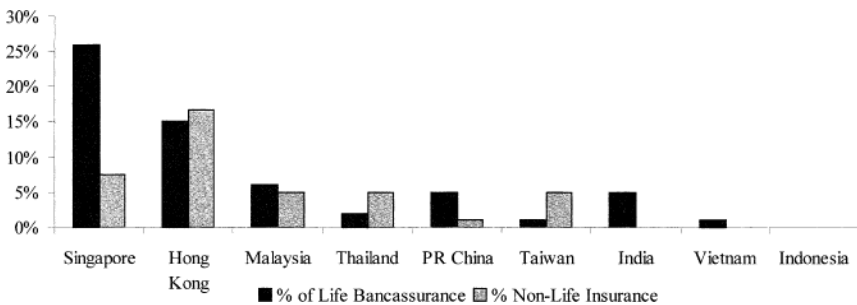
Despite these current barriers, there has been a push for financial deregulation throughout South and East Asia. As a result of this deregulation, boundaries between providers of financial products are blurring and countries that currently disallow bancassurance, such as the Philippines, are expected to accommodate this

**Table 17.8.** Percentage of Direct Non-Life Insurance Premiums by Distribution Channel, 2002

Country	Year	Career Agency & Direct Sales Force	Brokers	Direct Marketing	Bancassurance	Others
China	N/A	Main Channel	<1%	Insignificant	<1%	N/A
Hong Kong	2000	Main Channel for Personal Lines	Main Channel for Commercial Lines	<1%	16.70%	N/A
India	N/A	Main Channel	Effectively Prohibited	Insignificant	Negligible, but Increasing	N/A
Indonesia	2000	Main Channel for Personal Lines	65.60%	Insignificant	Insignificant	N/A
Japan	2001	91.70%	0.10%	8.10%	0.40%	N/A
Malaysia	2001	Main Channel for Personal Lines	19.40%	Insignificant	<5%	N/A
Philippines	2000	Main Channel for Personal Lines	42%	Insignificant	Not Allowed	N/A
Singapore	N/A	Main Channel for Personal Lines	Approximately 40% of Corporate Accounts	Insignificant	5–10%	N/A
South Korea	2000	99%	0.10%	Insignificant	Not Allowed	1% (pools)
Taiwan	N/A	73.30%	12.30%	Insignificant	<5%	N/A
Thailand	N/A	Main Channel	<30%	Insignificant	<5%	N/A
Vietnam	N/A	Main Channel	N.A.	0%	Insignificant	N/A

Source: Swiss Re (2002), p.35.

Note: N/A is not available.



Source: Swiss Re (2002b).

Note: The Philippines and South Korea do not permit bancassurance. All other countries not listed have negligible or no bancassurance distribution as yet.

**Figure 17.2.** Market Penetration of the Bancassurance System (%), 1998–2001

distribution channel through banking subsidiaries within the Philippines or through banks that are affiliated with insurance companies. South Korea is also hoping to introduce bancassurance; however those with concerns about the polarization of a market that is already dominated by large banks and insurers may inhibit this.

Some restrictions shape the operations of the bancassurance markets in South and East Asia. In particular, restrictions on foreign insurer entry have meant that the majority of bancassurance agreements are between domestic banks and foreign insurers. This form of alliance allows the foreign insurer to tap into the pertinent market without having to form a partnership with direct competitors and to gain access to the market by using existing networks. As a consequence, the level with which these partners are collaborating is mainly through distribution agreements (69 percent) with the remaining operations based on the more integrated joint ventures, subsidiaries, holding companies, and financial conglomerates (Swiss Re 2002b). These foreign insurers, which are involved in approximately 77 percent of bancassurance operations in South and East Asia (Swiss Re 2002b), also have more experience with this type of distribution elsewhere in the world.

The rise of bancassurance in South and East Asia is also due to synergies between insurance products and banks' particular channel attributes. For example, this would include a bank's staff already being knowledgeable about such products, an established customer base, and customer information being used to target key segments with great accuracy. Along with the increase of experienced foreign insurers in the market, synergies have fueled a major push for bancassurance within the region.

The banks' incentive to decrease costs and recoup diminishing interest margins has been heightened due to the Asian financial crisis. It has been recognized that the efficiency of using existing bank channels and various other distribution channels is greater than using the current career agents system (LIMRA International 2000). With this acknowledged, bancassurance has been difficult for governments, banks, and insurers to ignore. Introducing these new higher-yield products also helps to delay the outflow of a bank's funds, which has been significant recently due to low rates on deposits. Another issue highlighted by the financial crisis was the lack of stringency in the credit culture within many of the South and East Asian economies. By tying in insurance products to bank loans, for example, fire insurance for a housing loan, the risk of the asset is reduced somewhat.

As a rising middle class is fueled by greater economic growth, a new market has emerged. Therefore, the traditional distribution systems are no longer targeted towards the entire market. As many of the financial products that are consumed by the new middle class are accessed through existing bank systems, banks provide the perfect avenue to provide their insurance needs as well. This new market is also not necessarily looking for the more traditional insurance products, but is looking for tailored products as the market becomes more financially savvy. Consequently, banks and insurers are now collaborating to provide comprehensive coverage and more integrated products. With the lack of pension schemes throughout the region, likely through deficient government and employment pensions, consumers are also becoming increasingly motivated to provide for their own future.

In summary, the main issues for bancassurance in this region are the restructuring of the industry with an emphasis on consolidation and integration, a shift in previously restrictive regimes, creating synergies, the need to tap into new

markets through more efficient channels, product innovation, and the influx of global competition and partnerships. Another fundamental change in the region's insurance industry is the deregulation and liberalization of the market. This also leads on to two final areas that need further discussion as they underlie the movement of the insurance sector in the region that has arisen from deregulation: the type of business that is underwritten in the region as well as the importance of financial intermediation.

#### **17.2.4 Types of Businesses Underwritten**

In general, commercial lines of insurance have seen greater growth than personal, with commercial growth of 3.5 percent versus 1.5 percent for personal lines of non-life insurance in 2001 (Swiss Re 2003b). As would be expected, growth in commercial net premiums written increases as the amount of business undertaken within the country increases. This explains the greater proportion of commercial lines within the more developing nations such as India and China compared to the more developed markets such as South Korea and Taiwan.

Throughout the region much of the non-life insurance growth can be attributed to motor vehicle insurance, in particular, over half the premiums in both Taiwan and Thailand relate to this line. Other countries within the region also show a large representation with most attributing approximately a third of all premiums to motor vehicle insurance. Insurers will come under further pressure to compete within the particular motor vehicle insurance markets in the region as motor vehicle premium rates in India, China, and Taiwan are liberalized.

The SARS epidemic is also thought to have generated a rise in both personal and commercial policies. Medical insurance may be affected directly through an increased awareness of health issues such as SARS. To add to this, individuals are now conscious of the advantages of having coverage for the use of private medical services because public resources were put under strain during the epidemic. Commercial lines of insurance should receive increases in premiums due to SARS as disruptions to business and cancellation of events make businesses wary of further health epidemics, even those unrelated to humans, such as the avian flu crisis.

Although declining, government providers often play a big role within the insurance markets of South and East Asia. In particular, governments often provide medical and unemployment insurance as well as pensions. This varies from country to country quite substantially. For instance, in India and Hong Kong, governments do not usually provide for any of these three lines of insurance. Alternatively, Singapore, South Korea, and Taiwan provide all three types of insurance as well as other lines such as crop insurance, workers' compensation, and motor vehicle insurance (Swiss Re 2003b). Some governments have even started to provide insurance against terrorism, particularly for the aviation industry.

With greater competition and a more client-oriented focus, South and East Asian insurance is becoming more diverse and the scope of contracts available to consumers and businesses are tailored to more specific risks. Large insurers, who are now segmenting their considerable customer base to a greater extent, are also developing several innovative products. Specialist firms are also continuing to service niche markets. Overall, these changes show that the traditional role of



insurance companies when providing policies is changing. However, so too is their role as a financial intermediary.

### **17.2.5 The Role of Insurers as Financial Intermediaries**

Despite the world downturn that began in late 2000, optimism within the global financial markets in the beginning of 2005 has strengthened the financial sector. Also, growth in bank lending within the region has not been as affected from 2002 to present. However, increases in both consumer and commercial lending have been met with more prudence, to avoid any future investment bubble. The continued confidence of financial intermediaries is an important facet of the recovery from the previous decade's slump. In particular, insurance companies' role in allowing risks to be spread throughout the region (and the world) and their injection of funds back into the region is pivotal. Large and foreign insurers are more conservative in their investment activities focusing on more passive investments such as cash and deposits. Wide ranging regulation of insurance investment is still prevalent, although changes are expected to increase flexibility and allow for higher yield investments (Organization for Economic Co-operation and Development (OECD) 1999).

In general, the majority of insurance companies' investments are kept in cash and cash-equivalents (including other relatively risk-free assets, such as government bonds), and more so for non-life insurers than life insurers due to the different liability requirements. Over the 1997 Asian financial crisis, equity investments declined and bond investments increased (Swiss Re 2003a). This is not surprising as the volatility of the South and East Asian stock markets increased over the last decade. Thus, insurers are adjusting portfolios because regulators have consequently maintained a stringent policy on investing in equity markets and because many insurers were negatively affected by their higher weighting of equity holdings during the financial crisis. Moreover, despite the fact that the proportion of real estate investments remained relatively stable, there was an overall decrease in the value of insurers' investments. Consequently, solvency concerns have come to light as regulators are now looking at insurers' balance sheets with more scrutiny. Losses incurred on local investment assets have meant that reshuffling of investments has had to take place to secure appropriate reserves, particularly within Thailand, Indonesia, and South Korea.

Finally, reinsurance has started to be used to alleviate the mismatch between the assets and liabilities of insurance companies, although restrictions to foreign company entry have hindered the entry of some of the large global reinsurers into the region. Due to the long-term nature of life insurance, companies within this sector experienced a greater mismatch between assets and liabilities. In Indonesia, problems arose because too few investments were denominated in U.S. dollars to offset the policies that were based in the same currency. This currency risk, which was a by-product of insurers trying to gain from higher returns on domestic investment, proved to be quite detrimental once the financial crisis emerged. There was a mismatch in the maturities of assets and liabilities, where longer-term policies were matched with what proved to be shorter-term investments with diminishing value. Perhaps a closer look at what is determining demand and supply within the region will help to alleviate problems such as that experienced in Indonesia. This,

therefore, leads us into the next section that focuses on academic research of these determinants.

### **17.3 UNDERSTANDING THE DRIVERS OF INSURANCE MARKET GROWTH**

The insurance market growth discussed previously has been enormous across Asia. But growth in economies such as Hong Kong, Singapore, India, and China has been more pronounced. For key decision makers, such as managers and policy makers, it is essential to understand those factors that promote higher growth rates. The purpose of this section is to provide a basic insight into the drivers of insurance market growth by drawing upon current empirical studies. The discussion highlights the factors that promote the demand and supply of insurance and relate these findings to the insurance market of Asia.

#### **17.3.1 Drivers of Demand**

Economies flourish under economic, legal, and political stability. It is therefore of little surprise that economic sectors, such as insurance, should also do well under similar conditions. Economic growth and economic stability, coupled with effective political and legal institutions, have been found to promote the development of insurance. However, for a better understanding of the differing rates in insurance market growth experienced in the markets across Asia, it is necessary to explore these factors more fully.

There is broad agreement that growth in GDP and/or GDP per capita leads to higher demand for insurance (Beenstock, et al. 1986; Truett and Truett 1990; Browne and Kim 1993; Outreville 1996; Ward and Zurbruegg 2002; Beck and Webb 2003). As economic prosperity increases, the need and ability to purchase insurance also increases, although not at a constant rate. As consumers become increasingly wealthy, they can afford to retain risks within their current financial portfolios. Therefore, the strongest link between income and insurance consumption occurs in those countries with moderate levels of GDP per capita, which Ward and Zurbruegg (2002) found to be the Asian ‘Tiger’ economies.<sup>318</sup> However, as these economies continue to grow, the demand for insurance will wane, which must be an important consideration for insurance companies seeking to exploit growth in Asia on a long-term basis.

Economic stability is equally important for insurance consumption. High rates of inflation devalue the net present value of insurance; and therefore reduce its attractiveness to consumers. Moreover, excessive inflation can be linked to macroeconomic instability, with consequences for consumption, investment, and exports. Ward and Zurbruegg (2002) provide evidence that inflation is around 2.5 times more important for insurance demand in Asian economies than it is for developed OECD countries. This emphasizes the role that broad macroeconomic

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<sup>318</sup> In this discussion, the ‘Asian tiger economies’ are categorized as consisting of Hong Kong, South Korea, Malaysia, Singapore, Taiwan, and Thailand.

stability plays in the long-term development of the demand for insurance, a role that is mirrored by the accelerated growth of insurance within the relatively stable economies of Singapore, Hong Kong, India, and China.

Recent debate on economic development and economic stability has been dominated by discussions of the function played by legal and political institutions. Prominence, however, has usually been given to the effectiveness of legal systems in promoting commercial transactions within an economy. As a contractual exchange of risks, insurance market development is arguably very sensitive to legal and political effectiveness. Ward and Zurbruegg (2002) and Esho, et al. (2004) find clear support for this hypothesis in both the life and non-life sectors. Importantly, a direct positive correlation seems to exist between an improvement in the legal systems within a country and life insurance demand. It is, therefore, highly evident that the effectiveness of the legal environment within an economy is very important for the development of the insurance sector.

The significance of legal and political variables is usually measured from constructed indices. A good example is from Knack and Keefer (1995, 2000), who use an index of governance constructed from five International Country Risk Guide (ICRG) variables that reflect the security of private property and the enforceability of contracts: 'Corruption in Government,' the 'Rule of Law,' 'Expropriation Risk,' 'Repudiation of Contracts by Government,' and 'Quality of the Bureaucracy.' The higher the index the more effective the legal and political system is. In the case of Indonesia where the index was low, weak functioning legal systems are associated with low GDP growth and low insurance market growth. The message for international insurance companies is, therefore, very clear. Along side considerations of economic stability, legal effectiveness is also a necessary condition for economic and insurance market development, especially within the Asian economies.

Social factors can also play a role in the development of insurance market demand. Hofstede (1995) argues that the level of insurance within an economy depends on the national culture and the willingness of individuals to use insurance as a means of dealing with risk. While an appealing argument, Esho, et al. (2004) and Park, et al. (2002) fail to identify national culture as a significant driver of insurance demand. However, of particular interest to Asia is the role of Muslim dominated countries, where religious beliefs inhibit those forms of insurance that facilitate speculation of future events, thereby discouraging growth of the insurance sector. Since Asia has a number of important Muslim based societies, including Indonesia and Malaysia, these maybe expected to have a lower rate of insurance market development.

### **17.3.2 Drivers of Supply**

The supply of insurance, more so within many Asian economies is composed of domestic and international supply. The amount of supply, the number of firms, and the openness of competition, are all important for an understanding of market development, pricing, and ultimately profitability.

***The Domestic Supply of Insurance Services***

Unfortunately, little is empirically known about the determinants of domestic supply in the insurance industry. However, there has been an enormous research agenda in measuring the efficiency of various insurance industries around the world, see Cummins and Weiss (2000) for a review. However, little has been done to develop this work into an understanding of growth rates in domestic supply. Admittedly, the use of Malmquist indices to measure productivity developments over time is useful, but these indices have not been linked to the dynamics of the insurance market, including such topics as growth rates in premiums, number of insurance companies, or the types of risks being traded. All of which are important supply related topics.

***Competition and Financial Stability***

A tradeoff is often seen to exist between increased competition and financial stability. However, this view, arguably, places too great an emphasis on regulation being supply constraining, rather than supply enhancing. Regulation can restrict flawed products and facilitate the development of competition, innovation, and new beneficial products. Regulation can also be an ally of the sector, rather than simply being an enforcer of rules. Swiss Re (2003a) provides a brief review of regulatory characteristics and expected changes in the South and East Asian region. It is notable that the fastest growing insurance markets, Hong Kong, Singapore, and South Korea have the most liberal regulatory environments.

Admittedly, prudent regulation is still important and the need to regulate foreign insurance companies in Asia will only grow as globalization continues, but even globalization brings risk reduction. For example, globalization enables international insurance companies to diversify a broad range of risks, from the obvious examples of underwriting to the investment opportunities presented by different capital markets. In addition to these operational risk reductions, globalization also offers world players in the insurance market the opportunity to strategically reduce risk by broadening activities across many different international markets. As a result, financial stability can be strengthened by accessing a broad array of strategic positions in a variety of developing, emerging, and developed economies.

***Access to Capital***

A key development in the leading insurance markets of the world has been the emergence of alternative risk financing, characterized by CAT bonds, insurance derivatives, and the securitization of insurance lines (Swiss Re 2001b and Cowley and Cummins 2005). The benefits of such developments are the ability to draw on additional capital and to diversify risk beyond the insurance companies' balance sheet, or that of its reinsurer. These capital market developments highlight to the emerging economies of the world that the development of insurance supply is intrinsically linked to the development of the entire financial system and ultimately the depth and diversity of the accessible financial markets. Economies, such as Singapore and Hong Kong with well-developed capital markets and access to the capital markets of North America and Europe, should be able to bolster underwriting capacity and supply by broadening capital market access and financial innovation.

### **17.3.3 The International Supply of Insurance and Services**

The international supply of insurance services can take two broad forms, the export and import of insurance services and the provision of insurance services through foreign direct investment.

In assessing the attractiveness of international markets to insurance companies Ma and Pope (2003) reveal that the number of domestic competitors and high levels of existing demand are most important. In essence, international insurance companies appear to seek out high growth markets, with an abundance of existing suppliers; and therefore, no dominant incumbent. This may ease entry into the market by facilitating accommodation and switching between suppliers. In Asian countries, where state provision of insurance has led to the creation of a dominant incumbent, international entry into these markets maybe limited. This may then constrain future price competition and long-term growth of the market.

In addition to examining the factors that attract the import of insurance services, it is necessary to understand why insurance may be supplied internationally across national borders. A key argument is that the continued and growing supply of financial services across international boundaries is suggestive of competitive advantages gained from access to superior and cheaper factors of production, particularly labor and capital. Recent research conducted at the World Bank also sheds light on recent liberalization commitments in financial services trade, and how there are domestic and international forces that drive this liberalization process (Schuknecht, et al. 2003).

International insurance companies can use this analysis to benchmark their own domestic resource base and level of competitive advantage against the international markets into which they are contemplating entrance.

## **17.4 IMPLICATIONS FOR DECISION MAKERS**

Promoting economic development stimulates both life and non-life consumption. In particular, national income seems to have a stronger impact on life insurance consumption in Asia, than on the OECD markets. Decision makers should, however, not overvalue these results. Recent research indicates that the effect of national income on insurance demand decreases enormously after controlling for legal and political factors. The empirical results generally suggest that economic stability, conditioned on legal and political stability, appears to be more crucial for long-run success than economic development alone.

These findings are also reflected in the impact of income per capita on the demand for life insurance in the Asian 'Tiger' economies. After controlling for legal and political factors, income elasticities tend to be smaller. While economic development may occur at faster rates in Asia, the link to insurance market development does not appear to be as strong.

Insurance companies intending to expand their business activities abroad should consider these factors when choosing which markets to enter. In the non-life sector, empirical findings highlight the fact that the link between insurance demand and the legal environment is focused on the single issue of property rights enforcement. This

indicates that the effectiveness of the legal system in enforcing contracts is paramount to the development of the insurance market. However, in contrast to the life insurance industry, existing research highlights that the non-life insurance business is largely unaffected by cultural and institutional factors. In fact, Esho, et al. (2004) state that the development of non-life insurance is 'technically rather than culturally located' indicating the importance of the legal and regulatory environment.

On the supply side, decision makers need to be aware of how a number of key findings from the literature, in particular, the factors that promote a comparative advantage in insurance, drive international insurance supply. An important determinant is the capital to labor ratio. Applying this finding to the insurance sector is likely best achieved by arguing that the level and quality of technical infrastructure is important for supply side development in the insurance sector. To price risks and manage losses, decision makers should include the quality of office space, the clustering of insurance companies, services for shared experience and technical advice, and the reliability and breadth of telecommunication and computer systems.

The quality of capital and labor is also important since a comparative advantage is found to be related to the amount of schooling and the level of research and development (R&D) expenditures. Again, relating these directly to the insurance sector, R&D becomes important in the development and implementation of risk management and control systems. Fire systems, construction methods, motor vehicle security, and safety are further examples, along with the development of underwriting models and the ability to model financial and capital market risks. When coupled with an educated workforce and the development of professional training, the insurance sector can exploit and leverage knowledge available within its broader environment.

In terms of attracting an international supply of insurance, Ma and Pope (2003) show that international involvement in domestic markets is promoted by increased domestic competition and increased liberalization. Therefore, in order to promote supply, the emerging economies of Asia need to enable greater competition among existing and potential entrants and present flexibility and growth through increased liberalization. Deregulation, increased licensing of insurance companies, reduction in rate setting, and the broadening of underwriting lines and potential investment options are all suitable policies to promote.

## **17.5 CONCLUSION**

The South and East Asian economies offer a variety of risks and opportunities for global and domestic insurance companies. In the relatively developed and economically stable economies of Singapore, India, South Korea, Hong Kong, and Japan growing economic prosperity is strongly associated with insurance market growth. With increasing deregulation, freedom of market access to foreign companies, and a willingness to integrate financial services through bancassurance, these markets are competitive growth spots for the world's leading insurers.

In the more emergent economies of the region, where economic, legal, and political effectiveness are less-assured, commercial confidence and insurance market development is more open to macroeconomic shocks and potential financial crises.

Governments need to foster a commercial environment, which creates greater confidence for economic exchange and insurance risk transfers. Legal stability and the enforcement of property rights are essential for an economy to grow and to make insurance sectors attractive and profitable for both domestic and international players.

In the future, it will be interesting to see how domestic competitors rise to the challenge of international rivals; and the fight may not be one sided. Singapore, in the areas of telecommunications, aviation, and shipping, has shown itself to be a dominant regional competitor; and the same is possible in financial services, and in particular insurance. International rivals should not assume that the markets of South and East Asia offer effortless opportunities.

Perhaps most interestingly, the insurance sector stands in stark contrast to many other industries reflecting the trends of globalization. While many manufacturing industries view South and East Asia as a source of low-cost inputs, global insurance companies view South and East Asia as a potential source of premium growth. The empirical evidence suggests that intra-industry trade in insurance is promoted by a convergence in economic activity across economies. Therefore, an increasing international supply of insurance in South and East Asia will benefit from increased economic growth, and more importantly, salaried employment and rising personal disposable income. All factors which are likely, however, to impede further development of low cost manufacturing and subsequent export growth. It is without a doubt that the South and East Asian economies are now arriving at an important economic crossroad, with pressures to expand into the financial services industry while also trying not to lose their cost-advantages in their already established manufacturing sector. How successfully these economies migrate from manufacturing to service-based economies may have important implications for the medium term economic development of their respective markets, and the consequential desire to purchase insurance.

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**17.7 LEXICON**

**Annuity.** An annuity is a life insurance policy in reverse, whereby the purchaser gives the life insurance company a lump sum of money and the life insurance company pays the purchaser a regular income, usually monthly.

**Bancassurance.** Bancassurance is the amalgamation of assurance and banking business within a financial environment, whereby banks are used as distribution channels to sell insurance products.

**Broker.** A broker is an individual who arranges and services insurance policies on behalf of the insurance buyer. The broker is the representative of the insured, although the broker receives compensation in the form of a commission from the company.

**Career Agents.** Career agents work on behalf of the insurance company, selling products to potential policyholders. They are also referred to as a tied agent.

**CAT bonds.** CAT bonds are risk-based securities that allow (re)insurance companies to transfer natural catastrophe insurance risk to institutional investors in the form of bonds. CAT bonds help to spread peak exposures. They are also called Catastrophe bonds.

**Claim.** A claim is a demand by an insured for indemnity for loss incurred from an uninsured peril.

**Commercial Insurance.** Commercial insurance is sold by privately formed insurance companies with the objective of making a profit.

**Depositor's Insurance.** Depositor's insurance provides a payout that is a multiple of the depositor's cash balance in the occurrence of a certain event (i.e. death).

**Endowment Insurance.** Endowment insurance provides the insured with the face value of a policy if the insured or the beneficiary is alive on the maturity date stated in the policy.

**FDI.** Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy ('direct investor') in an entity resident in an economy other than that of the investor ('direct investment enterprise'). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.

**GDP.** Gross Domestic Product represents the total value of final goods and services produced within a country's borders during a specific time period, usually a year.

**GNP.** Gross National Product is the total value of final goods and services produced by domestically owned factors of production.

**ICRG.** International Country Risk Guide.

**Income Elasticity.** Income elasticity of demand measures the responsiveness of the quantity demanded of a good to the income of the people demanding the good. It is measured as the percentage change in demand that occurs in response to a percentage change in income.

**Insurance Derivatives.** Insurance derivatives are investment instruments which are determined directly and solely by the loss patterns of natural catastrophes.

**Liability Insurance.** Liability insurance is insurance for damages that a policyholder is obliged to pay because of bodily injury or property damage caused to another person or entity based on negligence, strict liability, or contractual liability

**Life Insurance.** Life insurance provides for a payment of a sum of money upon the death of the insured. More specifically, in exchange for a series of premium payments or a single premium payment, upon the death of the insured, the face value minus outstanding policy loans and interest is paid to the beneficiary.

**Malmquist Index.** The Malmquist index is a measure of the degree of concentration in a market. It is the sum of the squares of the percentage market shares of all companies in the market.

**Mutual Insurance Company.** A mutual insurance company is an insurance carrier, without capital stock, that is owned by the policyholders. It may be incorporated or unincorporated.

**OECD.** Organisation for Economic Co-operation and Development is an international organization of those developed countries that accept the principles of representative democracy and a free market economy. It originated as the Organisation for European Economy Co-operation (OEEC) to help administer the Marshall Plan for the re-construction of Europe after World War II. Later, its membership was extended to non-European states, and in 1961 it was reformed into the OECD.

**Over-Draft Insurance.** Over-draft insurance covers the repayments of an overdraft facility in the case of certain events (i.e. death).

**Premium Density.** Premium density is premiums per capita.

**Premium.** A premium is the payment, or one of the periodical payments, a policyholder agrees to make for an insurance policy reflecting his/her expectation of loss or risk.

**Premiums Earned.** Premiums earned are premiums an insurance company has recorded as revenues during a specific accounting period.

**Premiums Written.** Premiums written are premiums for all policies sold during a specific accounting period.

**Product Liability Insurance.** Product liability insurance is insurance for the manufacturer or supplier for of goods for damage caused by their products.

**R&D.** Research and Development can be defined as any project to resolve scientific or technological uncertainty aimed at achieving an advance in science or technology. Advances include new or improved products, processes, and services.

**SARS.** Severe Acute Respiratory Syndrome is a viral respiratory illness caused by a coronavirus, called SARS-associated coronavirus (SARS-CoV). SARS was first reported in Asia in February 2003. Over the next few months, the illness spread to more than two dozen countries in North America, South America, Europe, and Asia before the SARS global outbreak of 2003 was contained.

**Term Life Insurance.** Term life insurance is a life insurance policy that has a set duration limit on the coverage period. Once the policy is expired, it is up to the policy owner to decide whether to renew the term life insurance policy or to let the coverage terminate.

**Permanent Life Insurance.** Permanent life insurance, also referred to as ordinary life insurance or whole life insurance, is a life insurance policy that covers an insured for their entire lifetime, assuming premiums are paid as specified in the policy. Whole life insurance provides a guaranteed fixed sum (sum assured) upon death of the life or lives assured.

**Time Deposits.** Time deposits are savings accounts which require notice of withdrawal.

**WTO.** World Trade Organization.