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REVIEW OF THE WORK PROGRAMME OF THE COMMITTEE

Review of the work programme of the Committee and implementation
..... of its decisions in the field of insurance

Report by the UNCTAD secretariat

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INTRODUCTION

1. The present report has been prepared pursuant to paragraph 16 of Trade and Development Board resolution 231 (XXII) on rationalization of the permanent machinery of UNCTAD, which requested the main Committees to review regularly the elaboration of their work programmes and the implementation of their decisions.
2. In the field of insurance, the work done by the UNCTAD secretariat is guided by the resolutions adopted by the Conference and by the Committee on Invisibles and Financing related to Trade (CIFT). Globally, these resolutions call upon developing countries to create and strengthen domestic insurance markets to cover their local risks, to lessen their dependence on foreign markets through self-reliance and regional co-operation and to devise insurance systems better adapted to their fundamental needs, taking into consideration their diversity and their available means.
3. The implementation of the resolutions of the Conference and CIFT with regard to insurance naturally depends on two types of action. The first relates to the efforts deployed by the secretariat through its Special Programme on Insurance. The second relates to the action taken by member countries.
4. This report is confined to the description of activities carried out or planned by the UNCTAD secretariat since the tenth session of CIFT, which took place from 13 to 17 December 1982. As regards actions taken by member countries to implement the resolutions, a detailed description thereof is contained in the biennial review which has been prepared by the secretariat. 1/
5. Chapter I of this report will deal with the different activities of the secretariat during the period of review. Chapter II will elaborate on the programme of work.

1/ "Insurance in developing countries: developments in 1982-1983" (TD/B/C.3/189)

Chapter I

ACTIVITIES

A. General studies on insurance developments and policy formulation

6. Pursuant to the resolution adopted by CIET at its second session (April 1967) "to carry out at least once every two years reviews of developments in insurance, with special reference to developing countries", ^{2/} the UNCTAD secretariat have carried out an extensive analytical review of the major events on the insurance scene during the years 1982 and 1983. The main focus on this analytical work is on three areas:

1. Issues relating to efforts by developing countries to set up and to consolidate the existence of an efficient domestic insurance market, with what this implies from the legal, structural, economic and educational viewpoints;

2. The types of relationship with international markets, particularly in the field of non-admitted insurance, reinsurance and other forms of reliance on foreign markets;

3. Developments in the field of regional, subregional and interregional co-operation among developing countries.

7. The information provided by this review is aimed at assisting the Committee in its consideration of the elaboration and implementation of its policy measures in the field of insurance. Several findings can already be brought to its attention.

8. One of the most important findings is the increasing role of international reinsurance in the covering of risks in developing countries, despite the fact that the aggregate domestic capacity of each market is on the increase. This fact, coupled with recent information on the deterioration of the financial solidity and credibility of certain reinsurers, might justify a type of supervision of reinsurance transactions in an endeavour to protect policyholders and their respective local insurers.

9. The biennial review highlights the absence in many developing countries of comprehensive and appropriate schemes to cover natural as well as man-made catastrophes. Such schemes are lacking despite the fact that these hazards affect the developing countries in particular, and that their governments are usually not in a position to provide tangible relief from their own budgets.

1. Insurance in the context of services and the development process (TD/B/1014)

10. At its sixth session, the Conference adopted resolution 159(VI) on international trade in goods and services, which requests the secretariat to prepare studies on the role of the services sector in the development process. One of these studies deals exclusively with insurance services.

^{2/} Official Records of the Trade and Development Board, Fifth Session, Supplement No. 3, report of the Committee on Invisibles and Financing related to Trade on its second session (TD/B/118/Rev.1-TD/B/C.3/51/Rev.1), annex I.

11. This study examines the important role played by insurance in the development of a country's economy. It also analyses the advantages and inconveniences for the developing countries of buying insurance services locally, or abroad. The last chapter of the study examines international insurance transactions in developing countries.

B. Studies on individual sectors with respect to policy formulation

12. The secretariat, at the request of CIPT at its tenth session, has prepared a number of documents on different topics related to promoting the growth of insurance markets in developing countries.

1. The impact of captive insurance companies on the insurance markets of developing countries (TD/B/C.3/192)

13. The biennial review submitted to CIPT at its tenth session expressed concern with regard to the operation of captives belonging to transnational corporations as insurers and/or reinsurers for the risks located in developing countries. At that session CIPT requested an in-depth study on this type of risk carrier to measure their impact on the insurance markets of developing countries. The study carried out by the UNCTAD secretariat described the nature and methods of operation of captives. It then examined further their positive as well as negative effects on the insurance markets of developing countries. Finally, it examined the utility for large enterprises in developing countries of the use of the captive concept.

2. Study on alternative legal systems for the compensation of motor accident victims (TD/B/C.3/190)

14. Two studies on motor insurance in developing countries were submitted to CIPT at its ninth session. The first study described in detail the deteriorating experience of this class of business in many developing countries, and its negative effects on the performance of domestic markets in these countries. The second study criticized the legal system on the basis of which the motor accident victims were indemnified.

15. The study, which was prepared with the help of international legal and insurance experts, has provided a catalogue of different concepts and systems which might possibly apply to the principle of compensation and its extent. In comparing these systems, due consideration was given to the specific features of developing countries and these countries' possibilities of meeting the costs of such reforms. It is obvious that this study was merely intended to shed some light on the possible ways of reforming actual motor insurance systems. Thus, no specific system would be recommended.

3. Study on moves to reform the legal systems governing motor accident victims' compensation in developing countries (TD/B/C.3/191)

16. This study attempts to complement the previous study on alternative legal systems. It describes the experience of six developing countries which have introduced some reforms in the legal systems that serve as a basis for the compensation of motor accident victims in order to enable Governments thinking of introducing reforms to draw on the expertise available in other countries.

4. Establishing life insurance tax policy in developing countries (TD/B/C.3/195)

17. In compliance with a request made by CIFT at its tenth session, the secretariat has carried out a study on taxation in life insurance. This study shows that a favourable tax policy towards life insurance may contribute to the promotion of this class of business which remains under-exploited in many developing countries. The study makes various suggestions as to the structure of tax policy towards life insurance, and thus could serve as a guideline for fiscal and insurance authorities in developing countries.

C. Other activities

18. The secretariat has continued to respond to requests by developing countries for assistance in the formulation of policies, laws and regulations in the field of insurance. It has also assisted some developing countries, in co-operation with the United Nations Development Programme (UNDP) to create and manage their insurance and reinsurance institutions.

19. The secretariat has continued to provide assistance to developing countries in the insurance education field. Seminars and symposia have been organized by it with the help of UNDP and other bodies. Close co-operation has continued, in particular with regional and subregional insurance institutes in developing countries which UNCTAD has helped to set up.

20. The secretariat has been actively involved in several regional and interregional insurance meetings in an attempt to foster regional co-operation between insurance markets in developing countries.

Chapter II

PROPOSED PROGRAMME OF WORK IN THE FIELD OF INSURANCE

21. To help the Committee in drawing up a programme of work, the secretariat wishes to refer first to the mandate that the Committee received from the Trade and Development Board and to the objectives that UNCTAD has set for itself in the field of insurance and reinsurance. The examination of the present situation of the insurance sector in developing countries, against the background of these objectives, is expected to shed light on possible areas for the Committee's future action and for its programme of work.

A. The terms of reference

22. The Committee's terms of reference, laid down by the Trade and Development Board at its first session in April 1965, included the promotion, under the Board's general guidance, "of general and consistent policies in the field of invisibles" (i.e. insurance and reinsurance), the implementation of the recommendations of the Conference and the Board in that field, and the formulation of recommendations thereon to the Board, "keeping in mind the objective of accelerating the economic growth especially of developing countries". ^{3/}

23. Throughout its ten sessions, the Committee has discharged its mandate in both aspects, involving, first, the elaboration of policies for the Conference's consideration on possible contributions of insurance to the development process, and, secondly, the launching of negotiations aimed at implementing the Conference's strategy on that matter. The setting up and strengthening of national insurance markets in developing countries has been given clear priority in recognition that "a sound national insurance and reinsurance market is an essential characteristic of economic growth" (Conference recommendation A.IV.23 adopted in 1964). New lines of action laid down at the third session of UNCTAD were mainly a result of previous deliberations in the Committee, including efforts to establish insurance and reinsurance enterprises in developing countries; the need to invest locally insurance reserves arising from local insurance transactions; the resort to local markets for the insurance of transnational investments in developing countries; and the objective of closer co-operation among insurance and reinsurance industries of developing countries (Conference resolution 42(III)).

24. An important incentive for the Committee's work came from the recognition in the International Development Strategy for the Third United Nations Development Decade that it was necessary to establish and strengthen local insurance markets in developing countries and to ensure that terms and conditions of international insurance and reinsurance transactions should be equitable for, and meet the needs of, all parties concerned, in particular those of the developing countries. In more general terms, the Strategy insisted on measures to encourage a more balanced international distribution of services industries and to assist developing countries in minimizing their net outflow of foreign exchange from invisible transactions.

^{3/} "Terms of reference and rules of procedure of the Committee on Invisibles and Financing-related to Trade" (TD/B/C.3/16 Rev.1).

B. The problems addressed

25. Problems facing developing countries in meeting the objectives set out by UNCTAD and the International Development Strategy were identified at various Committee sessions and were also considered by the Trade and Development Board and the General Assembly. As pointed out in the UNCTAD section of the medium-term plan for the period 1984-1989 (chap. 16.II), those problems stemmed particularly from "the insurance sector in many developing countries [continuing] to be vulnerable to market distortions and foreign competition and often [lacking] a basis which would allow it to provide the types of cover required. The financial and technical structure of the sector makes it fragile and highly dependent on outside reinsurance. The lack of dynamic action at the internal level may also result in an outflow of funds, thus affecting the balance of payments and the local investment potential in developing countries". 4/

26. The situation prevailing at the time that section was prepared remains essentially changed and it may even become worse if corrective measures are not taken at the national and international levels. As illustrated in the biennial "Review of developments in the field of insurance" 5/ which the secretariat submits regularly to the Committee, the increased size of the insured risks which are steadily emerging in the developing countries and the catastrophe potential of these risks result in increased reliance on foreign reinsurance. The reliance is increased by the traditional financial and corporate foreign control that still impinges upon the decisions of insurance companies in many developing countries. At the same time, the excess capacity of international reinsurance markets is leading to a deterioration in the financial strength and business standards of some markets. Special efforts are also needed to provide developing countries and their insurance institutions with greater bargaining power, which is essential to ensure better terms and conditions for reinsurance negotiated in international reinsurance markets.

27. A second category of problems stems from the lack of adaptation of insurance supply to the specific needs of the developing countries. As the secretariat pointed out at the fourth session of the Working Group on the Medium-term Plan and Programme Budget, "Many [of the developing countries] considered that the insurance sector which effectively served the national economy was not only the one which supplied the traditional types of insurance covers to the consumer, but also effectively catered for the genuine requirements of the countries concerned. Those needs called for covers which were of marginal importance, if any, in other, more developed regions, but were essential to the development process of developing countries". 6/

28. That evaluation of problems led to the formulation of a set of objectives, at the intergovernmental level, as follows: 7/

4/ Official Records of the General Assembly, Thirty-seventh Session, Supplement No.6(A/37/6 and Corr.1), programme 7, para.16.90.

5/ The latest issue of the Review covers the period 1982-1983 and is submitted to this session of the Committee in document TD/B/C.3/189.

6/ See Official Records of the Trade and Development Board, Twenty-third Session, Supplement No.4, para.214. "Report of the Working Party on the Medium-term Plan and the Programme Budget".

7/ See UNCTAD "Medium-term Plan for the period 1984-1989", op.cit., para.16.89.

"To strengthen the technical, financial, marketing and institutional structure of the insurance sector of developing countries so as to reduce its dependence on international insurance and reinsurance centres; to provide adequate state insurance control and the provision of training and educational facilities; to help develop reinsurance relations with other areas and countries based on new approaches which will improve the bargaining position of developing countries; to promote a higher level of co-operation and reciprocal exchange of reinsurance among developing countries; to provide new and larger types of cover in support of over-all economic development, particularly in connection with agricultural investments, credit and transport facilities, and the promotion of all aspects of foreign trade (export credit insurance, marine insurance, etc.); and to foster regional co-operation to provide the types of cover which would be beyond the reach of individual developing countries".

29. By all accounts, the above objectives are far from being met in many developing countries and will continue to provide orientations for the Committee's future action.

C. Possible elements for future work

30. The secretariat is aware of the fact that many of the problems outlined in the above paragraphs may find an adequate response through collective action and that the Committee could provide an important stimulus to that action by suggesting a number of measures at the level of the insurance companies, Governments and regional associations. To this effect, and in line with the 1984-1989 Plan, the Committee may wish to consider the adoption of a concrete programme oriented towards the following goals:

(1) In view of the increasing importance of insurance services in the production of goods and other services in developing countries, the Committee may wish to encourage these countries to increase their present levels of insurance capacity and to promote and encourage particular insurance schemes of social and economic importance, such as export credit insurance, agricultural and crop insurance, transportation insurance (goods, vessels, aircraft), insurance against catastrophes and other covers.

(2) Incentives should also be given to developing countries to increase the quality of insurance services available in these countries. Favourable terms, prices and conditions can effectively help the whole production and distribution process, including foreign trade, an objective which calls for high levels of professional training. Education systems and facilities should be given more priority along the lines set out in Committee resolution 10(VII).

(3) The Committee may wish to express concern over the general problem of reliance of many developing countries on a few international reinsurance markets in developed countries, especially since the severance of the provision of these services may result in a serious disruption in the production and distribution of goods and services in the developing country concerned, and to consider any appropriate action to reduce this reliance. Further, the negotiation, at the level of the Committee, of international guidelines or regulations for risk transfer and reinsurance transactions should take place with the full participation of developing countries and bearing in mind the relevant policies already formulated by the Committee at its seventh session.

(4) The Committee may wish to encourage the improvement, wherever needed, of solvency requirements, investment practices and commercial performance of the domestic insurance market in developing countries, particularly through a more important role to be played by insurance supervisory authorities and insurance legislation in these countries. Increased attention should be paid to the importance of local investment of funds (as repeatedly highlighted in UNCTAD resolutions) and in preventing the use of fictitious insurance transactions for illicit financial operations.

31. The secretariat would also like to suggest new working procedures to render more effective the efforts carried out by the Committee in the above directions. In this connection, attention is drawn to the possibilities afforded by better co-ordination with other UNCTAD organs. This applies particularly to insurance matters dealt with by bodies like the Working Group on International Shipping Legislation, which has finalized model clauses on marine hull and cargo insurance to help developing countries to promote their own market.