Industry & Trade Summary

Insurance

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UNITED STATES INTERNATIONAL TRADE COMMISSION

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PREFACE

In 1991 the United States International Trade Commission initiated its current Industry and Trade Summary series of informational reports on the thousands of products and services imported into and exported from the United States. Each summary addresses a different industry area and contains information on product uses, U.S. and foreign producers, trade barriers, and industry trends. Also included is an analysis of the basic factors affecting trends in consumption, production, and trade of the commodity or service, as well as those bearing on the competitiveness of U.S. industries in domestic and foreign markets.[1]

This report on insurance covers the period from 1986 to mid-1991 and represents one of approximately 250 to 300 individual reports to be produced in this series during the first half of the 1990s. This is the first report to be issued for the service industries sector.

[1] The information and analysis provided in this report are for the purpose of this report only. Nothing in this report should be construed to indicate how the Commission would find in an investigation conducted under statutory authority covering the same or similar subject matter.

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Introduction

Insurance is a very large industry that deals with the transfer of risk.[1] The global insurance market exceeds $1.2 trillion in annual premiums.

The U.S. insurance market is the largest in the world, comprising approximately 37 percent of the world market.[2] The 12 nations of the European Community account for 24 percent, followed closely by Japan with 22 percent. The rest of the world, including all of Central and Latin America, Asia (outside Japan), Africa, and Eastern Europe, accounts for the remaining 17 percent. Appendix A of this report provides basic statistics on the world's 64 largest national insurance markets. Although difficult to compile[3], a list of the world's ten largest insurers would likely include 5 Japanese companies, 3 U.S. ones, and one firm each from Germany and France. Companies domiciled in the United Kingdom, Switzerland, the Netherlands, and Italy are also major players in global insurance markets. Appendix B reflects one estimate of the world's 50 largest insurance firms.

There is no single "insurance industry." Rather, there are several major sectors that deal with insurance, each possessing quite separate market outlooks, products, finances, sales methods, and investment strategies. These major sectors also have many subgroups. In the nonlife sector alone, for example, it is possible to have hugely varied types of business. These types might include insurance for an individual house against fire, insurance for the directors of an auditing firm against "errors and omissions" of their employees, or liability insurance for an airplane company for every plane it manufactures. Similarly, further divisions within smaller insurance segments are equally diverse. For example, although all pertain to auto insurance, an individual family policy is distinct from one involving a New York City salesperson using a company car, and both are disparate from a master insurance policy insuring a rental car fleet.

Such diversity also means that statistics and meaningful figures attempting to chart trade flows in insurance are difficult to assemble. The international insurance field is a particularly difficult domain. Governments do not routinely count cross-border transactions, because there are no tariffs on insurance services. Attempts to gather information through estimates and questionnaires to a multitude of firms often result in less-than-complete data, with many misunderstandings and errors.

Given these important caveats, this report includes information and analysis of the life, nonlife (e.g., property/casualty), and reinsurance sectors. (See Appendix F, "Glossary of Insurance Terms.") Several special subsectors, such as marine insurance,[4] are included under these three major headings.

Products of insurance companies are also immensely varied; almost any risk can be insured—for a price. Traditional life insurance, for example, is based on the average life expectancy of large groups of people in a given society. However, since the 1950s, life insurance has increasingly become primarily a savings mechanism (e.g., annuities,[5] which enjoy tax advantages) rather than a method primarily of mitigating risk from premature death. Nonlife insurance products have also changed a great deal in the past 30 years. Although "personal lines" such as automobile or house insurance protection have remained traditional risks, the "third-party" liability portion of such policies has increased greatly in the United States, due to changing views of acceptable risk and the evolution of U.S. law regarding liability. Similarly, insurance for commercial and business enterprises has changed dramatically, especially in the United States. Liability and tort claims in such areas as long-term health effects, accidental injury, and environmental damage have made a multitude of new insurance products necessary.

The creation of new products has had concomitant effects. For example, the high costs of some new insurance products have led an increasing number of commercial businesses to reject traditional insurance and form alternative mechanisms for insuring against risks. The formation of "captive"[6] companies is but one example. Indeed, even modest-sized commercial ventures now have "risk officers," whose primary duty is to lessen risk and insurance costs for the company.

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[1] Includes SIC 63, primarily subcategories 631 and the private-sector portions of 632, 633, and 635 in the United States. Outside the United States, it includes private companies as well as state-owned firms that act largely as independent commercial insurers (e.g., are quoted on stock exchanges).

[2] 1989 figures as denoted in terms of annual premiums, as translated into U.S. dollars. The fluctuation of the dollar against other currencies makes percentage market shares vacillate considerably over time. This important factor should be taken into account whenever market shares are discussed.

[3] An attempt to determine the dimensional ranks of global financial institutions, including insurance ones, is a complex exercise. Data is often fragmentary or not comparable. Categories for ranking insurance sectors are diverse and could include any of the following: assets, total premium income, premiums net of reinsurance, revenues, market capitalization, profits, insurance in force, net investment income, net income, or number of employees. Additionally, it is difficult to compare life and nonlife companies, or mutual life companies with stock life companies. For examination of attempts to rank global insurance companies see *The Wall Street Journal*, Sept. 20, 1991, p. R8; *Sigma*, Swiss Re, April 1989; *Financial World*, Sept. 4, 1990; and *Fortune*, Aug. 26, 1991. For reinsurance company rankings, see *ReActions*, March 1991. In addition, global insurance brokerage firms are ranked in *ReActions*, June 1991.

[4] See Appendix F, "Glossary of Insurance Terms."

[5] Ibid.

[6] Ibid.

Reinsurance products have also expanded. Because they cover risks shared between insurance companies, they have always been fairly international in character. Marine insurance, which specializes in the movement of goods, has also expanded with the huge increases in international trade over the past four decades. Lloyd's of London, continuing a 300-year tradition, remains the center of global expertise on marine insurance.

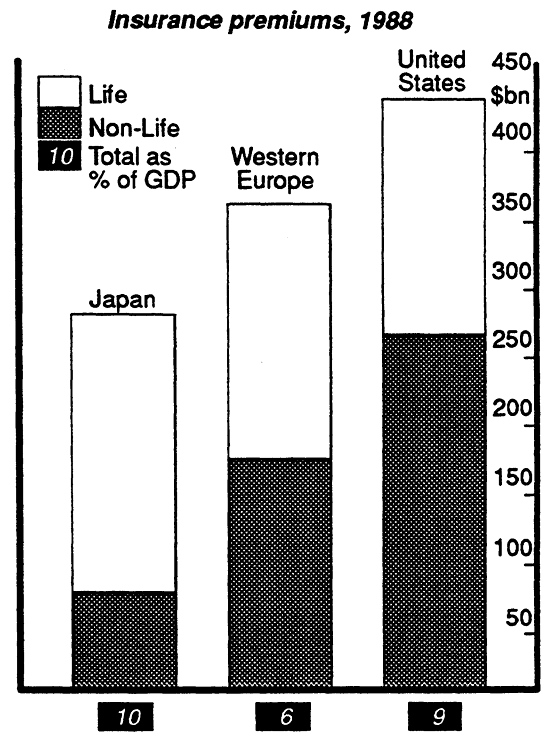
Finally, increased global economic growth and industrialization have increased the demand for insurance in geographic terms. An increasing number of global societies have discovered a need for formal insurance mechanisms. Appendixes C and D demonstrate the diversity of insurance "density" around the world.

Government owned or controlled insurance programs play a prominent role in the insurance markets of many nations. When such programs largely parallel the private sector markets (e.g., being public companies quoted on exchanges), they are included in this report.[7] The Government also plays a role in some parts of the U.S. insurance market, but such sectors are not covered by this report.[8] Additionally, certain health insurance plans, such as Blue Cross and Blue Shield, are considered "nonprofit" organizations. Since these plans are outside the private sector, they are not included.

Private insurance companies have long been central to the functioning of national economies because of their ability to provide relatively easy sources of capital. In the United States, for example, insurance companies have been instrumental in furnishing the capital to power the nation's industrial expansion since before the Civil War. Moreover, private-sector U.S. insurers traditionally have been depended on to fill social demands, especially for the ill and elderly, that many other nations consider the duty of the state.[9] Insurers are also expected, for a price, to furnish insurance more or less on demand: without it, for example, citizens may be denied permission to drive automobiles, and pharmaceutical companies may stop testing certain new drugs because the liability risks are too high. This combination of economic power and social obligation created special regulatory rules for the industry that are sometimes paradoxical.

The economic significance of insurance in all developed nations is illustrated by the ratio of insurance premiums to Gross Domestic Product (GDP): approximately 10 percent in Japan, 6 percent in Western Europe, and 9 percent in the United States (figure 1 and appendix C).

Figure 1
Comparison of insurance premiums as a percentage of GDP in Japan, Western Europe (both EC and EFTA countries), and the United States



Source: Swiss Re.

U.S. and Foreign Industry Profiles and Market Structures

Overview

The structure, economic concentration, methods of distribution, and regulation of the global insurance industry varies enormously. In the United States, there are a very large number of companies, many of them relatively small. There are many thousands of independent agents and brokers, who may sell insurance products for several companies. The industry is relatively lightly concentrated and is regulated through the highly decentralized mechanism

[7] Three large, state-owned companies continue to dominate, for example, the insurance market in France.

[8] Examples of Federal Government insurance in the United States include elements of the social security system such as medicare and medicaid; insurance on bank accounts such as the Federal Deposit Insurance Corporation; flood control insurance; civil service retirement funds; unemployment insurance; railway workers' insurance; coal miners' insurance; insurance for some intercity buildings; political risk insurance for U.S. exporters; and insurance for civil nuclear reactors. Many of the State governments are also involved with certain types of insurance, e.g., portions of medicaid and workers' compensation plans.

[9] This role is changing as the U.S. nuclear family structure evolves, as the care of the elderly is transferred to nursing homes, and as health costs soar. In 1989, for example, private insurance paid for only 1 percent of nursing-home-care costs, while 44 percent came from out-of-pocket expenditures of individuals, 43 percent from Medicaid, and 8 percent from Medicare. See *National Underwriter*, Property/Casualty edition, Jan. 14, 1991, p. 3.

of 50 State insurance commissions. A company wishing to operate nationally needs 50 separate authorizations and is subject to 50 different regulators. Insurance companies are kept legally separate from other financial sectors, such as banking and securities.

Western European insurance markets are widely divergent, reflecting different national insurance philosophies. Large numbers of companies operate in most European markets, some of them state owned. In terms of regulation, all nations have national, centralized regulatory systems. Importantly, the European Community (EC) is moving to a "common passport" system. Companies licensed to underwrite and sell insurance in one EC member state will also be able to do so throughout the Community, while being regulated only by their own national regulator. Insurance, banking, and other financial services are increasingly unified, and financial service sectors are merging. This trend has had a profound effect on insurance distribution systems and may affect reinsurance strategies.

Japan's insurance industry is highly concentrated, with a small number of very large companies. Different financial service sectors are legally separated but have close working relationships. All are regulated from a unified source—the Japanese Ministry of Finance. The distribution and regulatory system tends to promote stability (i.e., the status quo) over innovation and competition and thus deters new entrants to the insurance sector.

Figure 2 demonstrates the concentration ratio of companies in various national markets.

The U.S. Insurance Market

Structure

U.S. insurers have assets of $1.8 trillion. In terms of relative importance to the U.S. economy, the Bureau of Economic Analysis, U.S. Department of Commerce, estimated the contribution of insurance to the U.S. gross national product to be over $100 billion in 1988.[10] In comparison, motor vehicle manufacturers contributed about $55 billion; textiles and apparel manufacturing, $45 billion; and banks, $99 billion.

The U.S. insurance market is divided between life and health companies (roughly 42 percent) and nonlife (property/casualty) companies (58 percent).

Approximately 3,500 property-liability insurance companies and 2,300 life insurance companies are authorized to operate in at least 1 of the 50 States. The total industry is divided almost equally between capital stock/public ownership and mutual insurance firms (which are owned by policyholders). Mutuals have the largest market share for life insurance, while the stock companies dominate the property/casualty market. Certain types of insurance dominate the markets. Among life companies, for example, the annuities business has grown enormously in the past decade and constitutes about 45 percent of the market (figure 3). Similarly, in the property/casualty market, auto insurance (including commercial as well as individual policies) constitutes about 40 percent of domestic sales, followed by fire, marine, and other insurance lines (figure 4).

[10] U.S. Department of Commerce, U.S. Bureau of Economic Analysis, *Survey of Current Business*, Jan. 1991, p. 33.

Figure 2
Comparison of insurance market concentration ratios in selected nations, 1988

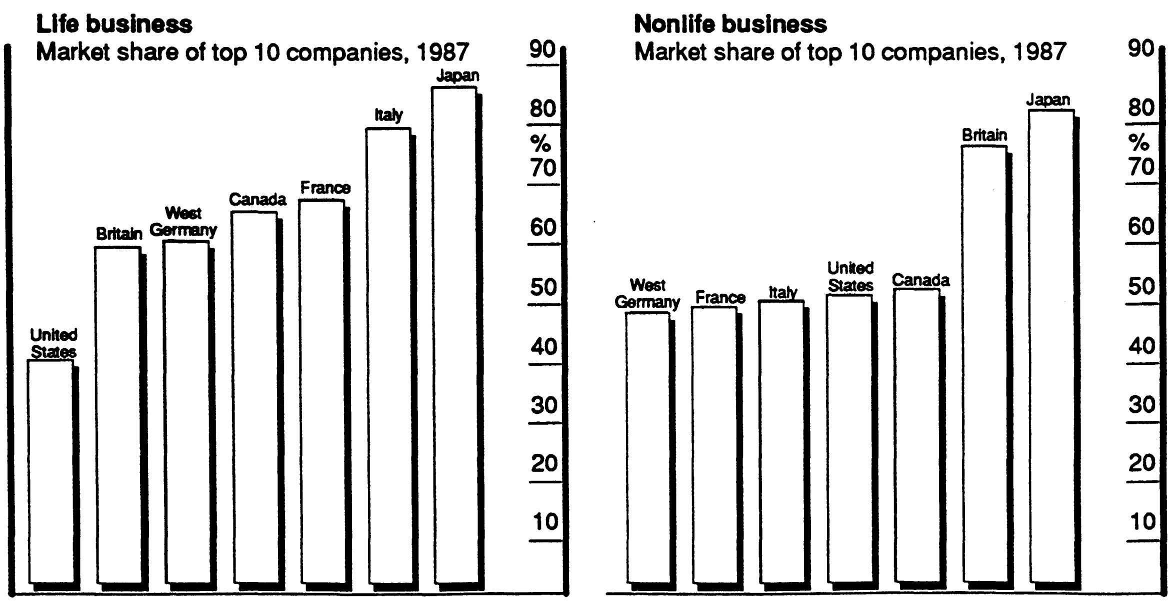


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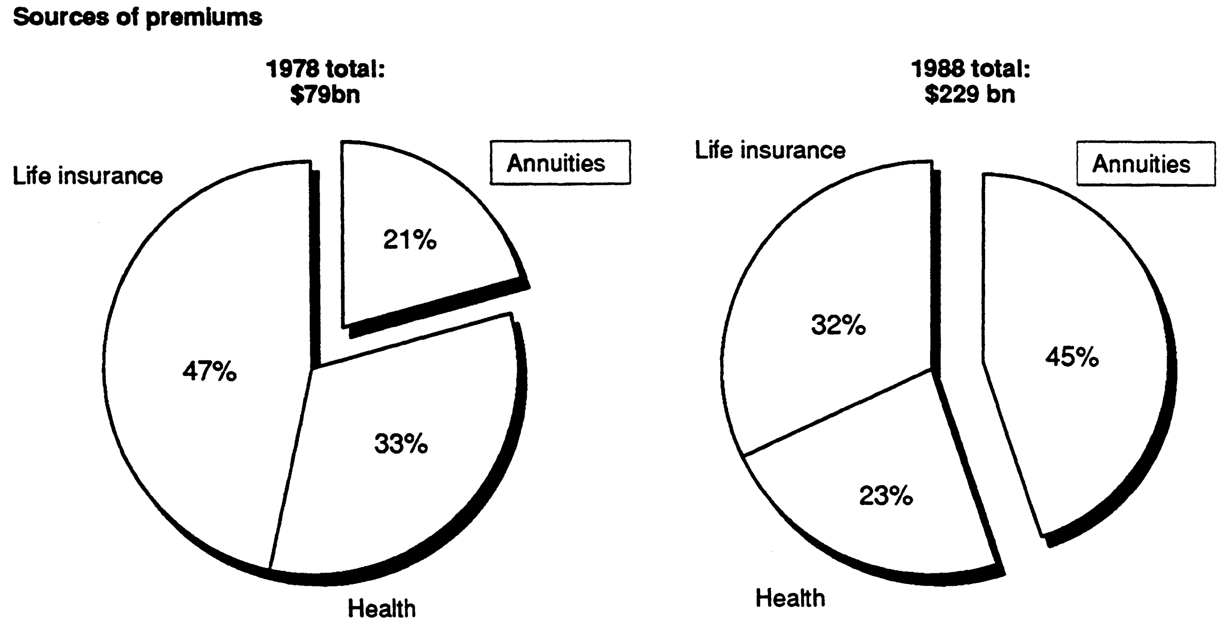
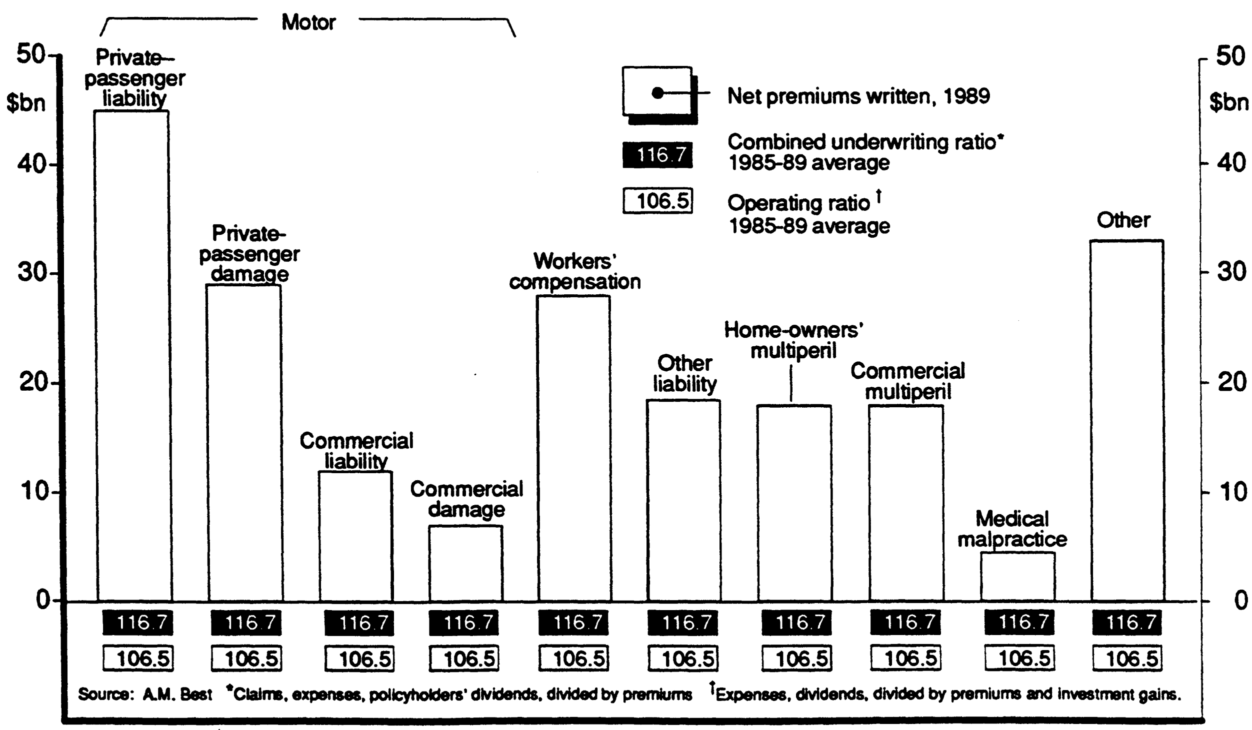
Figure 3
Sources of U.S. life insurance premiums, comparison of years 1978 and 1988



Note.—Because of rounding percentages do not add to 100.
Source: American Council on Life Insurance.

Figure 4
U.S. property/casualty insurance market, division of business and profitability, by type of insurance, 1989



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Reinsurance[11] is a part of all insurance sectors but is largely accounted for in the nonlife market. The 1991 global reinsurance market is worth about $90 billion in annual premiums, roughly one-third of it in the United States.[12] Approximately 90 companies in the United States write reinsurance exclusively, although a majority of all property/casualty companies participate in the reinsurance market to some degree.

Industry Concentration

The U.S. insurance industry has a relatively low concentration ratio (figure 2). No company (including umbrella groups under the same set of owners as one company) in either the life or nonlife sectors has more than about 9 percent of the premiums in its respective market. A significant portion of the total premium volume is written by the older and larger companies that operate on a national scale. For example, in both the life and nonlife sectors, the combined top-20 company groups have about 50 percent of the total market. For the most part, the top companies stay on top, although they may switch rankings (e.g., who is largest) among themselves from year to year. Figure 5 indicates the status of the 10 largest U.S. insurers.

[11] See Appendix F: Glossary of Insurance Terms.

[12] Telephone conversation with Swiss Reinsurance Co., Zurich, March 1991.

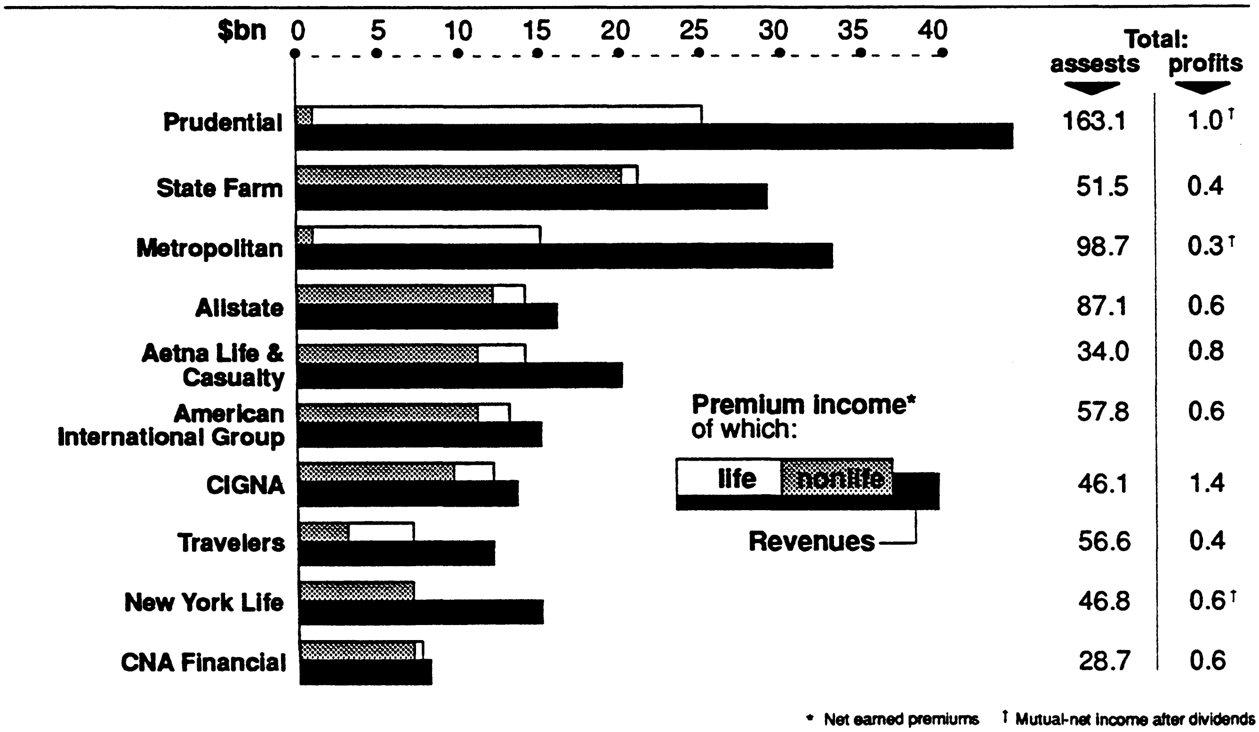
The top-100 life companies account for about 80 percent of the total premiums in that group; however, it takes approximately 900 property/casualty companies to reach the 80 percent concentration figure for that sector. Hundreds of companies have premium income in excess of $100 million per year, and many of the smaller companies are dominant in particular lines of insurance or in given geographic areas. There are a large number of very small local insurers. For example, the 500 largest life/health companies account for over 97 percent of the U.S. market; the remaining approximately 1,700 life companies have a joint market share of only 3 percent.[13]

The industry is intensely competitive within the United States, with approximately 5,800 companies doing business. Services supplied by insurance firms are largely dependent on the amount and cost of capital available to them. Underwriting[14] activity in the United States insurance industry closely follows the business cycle, especially financial interest rates. The U.S. industry tends to be cyclical, especially in the nonlife sector. During times when financial market returns are high, new companies open. Premiums fall due to price competition as companies strive to accumulate capital for investment in the lucrative high-interest financial markets.

[13] *Sigma*, Swiss Re, 2/1989.

[14] See Appendix F, "Glossary of Insurance Terms."

Figure 5
U.S. top 10 insurance companies, ranked by premium income, 1989



This large investment income makes up for underwriting losses incurred because premiums were priced too low (a process known as "cash-flow underwriting"). Eventually, as interest rates fall, the lower premium prices prove insufficient to cover rising claims, and companies have to use their own capital to cover losses. Profits fall, companies exit the market (or portions of the market), and insurance capacity[15] shrinks.[16] Companies remaining in the market raise premium prices and restart the cycle.

Insurance industry employment in the United States is estimated to exceed 1 million.[17] About one-quarter of this number represents agents and brokers who sell insurance; a minority of these are part-time salespersons working on a commission basis only. The Alliance of American Insurers, an insurance trade group, estimated the industry's payroll at about $63 billion annually in 1990. The industry is increasingly automated, and numbers of employees, especially at the administrative/clerical levels, will likely continue to shrink over time.

Regulation

Global Overview

Regulatory considerations have profound effects on the insurance industry throughout the world. Regulators determine which companies can underwrite and sell insurance; set rules for reserves, solvency, and financial well-being; establish perimeters of coverage in a given policy; sometimes determine prices for policies; and aim to protect insurance consumers from incompetence, fraud, and bankruptcies by insurance companies. Philosophies of insurance regulation are globally varied. On one end of the continuum, some nations practice "light" regulation; they attempt to protect insurance consumers primarily by assuring that insurance companies remain solvent and have sufficient reserves to pay future claims. Such light regulation leaves it largely to the consumer to judge the provisions and prices of competing insurance policies. Competition among companies is encouraged, on both pricing and product diversity, on the grounds that such competition benefits consumers as well as shareholders of well-run companies. Hong Kong is an example of a territory that practices a lighter type of regulation, followed by such countries as the United Kingdom, the United States, and the Netherlands. On the other end of the continuum, "heavy" regulation extends not only to solvency, but also to policy content and pricing. The rationale for heavy regulation is that competition among insurers over price or policy content makes it difficult for firms to generate and maintain loss reserves. This type of regulation tends to emphasize stability in insurance markets by preventing disruptive competition. Insurance companies are encouraged to be relatively large. Insolvencies are largely unknown. A side effect of heavy regulation is a tendency to preserve the status quo, thus making it difficult for new companies to enter the market. Examples of countries at this end of the continuum are Germany and Japan.

U.S. Administrative Organization

The primary responsibility for regulation of the U.S. insurance industry rests with the States and not with the Federal Government. Congress formally conveyed this authority to the States in 1945 through the McCarran-Ferguson Act. Each State determines admittance, forms, and reserve requirements, as well as regulating rates (for some types of insurance) and performing other regulatory matters. State rules are diverse, and their interpretation varies significantly. The McCarran-Ferguson law further specifies that U.S. insurance is to be largely exempt from Federal antitrust law.

The States administer insurance regulations through State insurance departments. Depending on the State, insurance commissioners are either elected directly or appointed by the governor. It is in each State's interest to attract and retain as many insurance companies as it can; these companies bring employment as well as tax and license revenue into the State. Each State thus tailors its insurance regulations according to its interests. The Kansas City-based National Association of Insurance Commissioners (NAIC) attempts to coordinate regulatory matters among the several States, and recommends "model" insurance legislation, but has no power of enforcement. Because the harmonization of insurance law involves action by 50 State legislatures, it is difficult to coordinate insurance regulation on a national basis.

Solvency

The intense popular and political anxiety generated by the savings and loan (banking) experience of 1989-90 has obliged State insurance regulators to focus more-than-usual attention on insurance solvency issues. The number of insolvencies continues to rise, and the issue is the major current public concern in insurance (figure 6). Several U.S. congressional committees have held hearings, and more are expected.[18]

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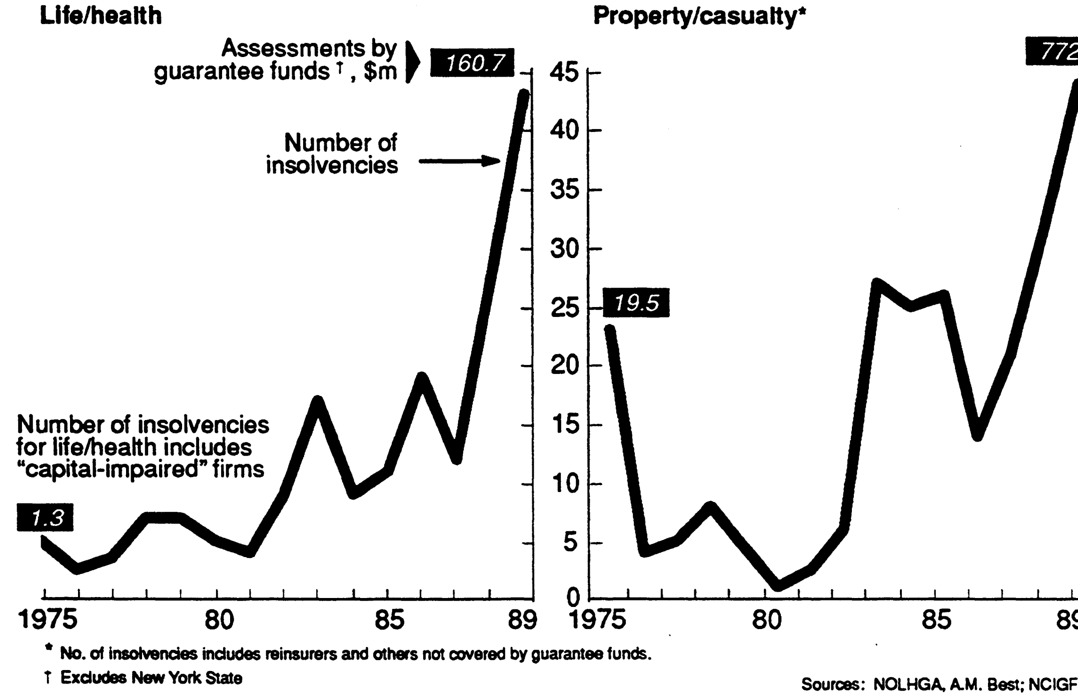
[15] Ibid.

[16] Hence, the exceptionally high interest rates of the late 1970s eventually resulted in the cyclical market trough of 1984/85—as well as triggering a string of nonlife insurance insolvencies as the cycle progressed.

[17] The Insurance Information Institute, New York, reports in its *1990 Property/Casualty Insurance Facts* handbook that the Bureau of Labor Statistics, U.S. Department of Labor, counted slightly over 2 million employees throughout the insurance industry in the United States in 1988. Over 600,000 of these were agents, brokers, and service personnel. The Department of Labor statistics include, however, Government-run insurance programs such as Medicare and Medicaid. General industry and Government sources estimate private-sector insurance employment at slightly over 1 million (e.g., see Tables 1 and 2 from the U.S. Department of Commerce).

[18] See especially, U.S. House of Representatives, Committee on Energy and Commerce, Subcommittee on

Figure 6
U.S. Insurance Insolvencies, 1975-89



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One of the largest insurance company solvency collapses to date occurred on April 11, 1991, when the State of California insurance commissioner forcibly assumed the management of the Executive Life Insurance Co., which had 39 billion dollars' worth of life insurance (face value of policies) in force, and some 170,000 policyholders in California (300,000 nationwide)—including some 75,000 annuities and $3 billion in guaranteed investment contracts. The California action also triggered, on April 16, the subsequent takeover by New York regulators of an Executive Life sister insurance company licensed in New York.[19] Only a few weeks later, regulators in New Jersey took over Mutual Benefit Life, the 18th largest life insurer in the United States. The regulator's move came after revelations that Mutual Benefit had overinvested in certain real estate projects that were nonperforming. Fearing a massive withdrawal of funds by policyholders, the regulators shut down the company before such a run would make it insolvent. At the time of writing, regulators continue efforts to sell the assets of Executive Life, and the Mutual Benefit Company, to new investors. The near-collapse of these two large companies raised wider fears of runs on insurance companies by policyholders fearful about the security of their investments.

In case of insolvencies, each State has an insurance guaranty fund.[20] Unlike for banks or savings and loan institutions, there is no Federal Government equivalent of the Federal Deposit Insurance Corporation for insurance companies. In the same way as other

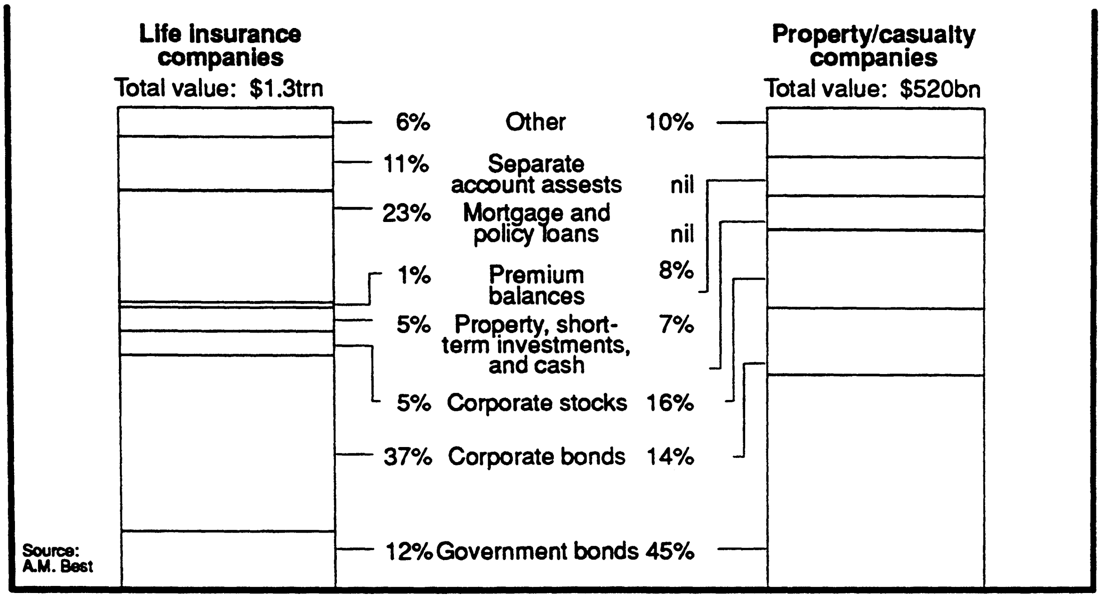
18—Continued

Oversight and Investigations, "Failed Promises: Insurance Company Insolvencies," (Washington: GPO, Feb. 1990). The same subcommittee also held additional hearings on Sept. 14, 1990, and on May 21, 1991. See also the hearing by the U.S. Senate Committee on Commerce, Science, and Transportation on Feb. 27, 1991, and in May 1991. Additionally, the U.S. Senate Banking Committee has requested the Corporate Finance Division of the U.S. Department of the Treasury for a report on insurance company insolvencies and related regulatory questions. The report is scheduled to be published late in 1991. Also, the U.S. General Accounting Office issued a number of reports on insurance regulation, including studies in November and May 1990, and May 21, 1991.

[19] *Pensions and Investments*, Apr. 29, 1991, p. 1. Also, *Washington Post*, Apr. 12, 1991, p. C1; *Washington Post*, Apr. 13, 1991, p. C1; and *Washington Post*, Apr. 17, 1991, p. B1.

[20] All States have such a fund for nonlife (property/casualty) companies. Forty-seven States have such a fund for life companies—the District of Columbia, Colorado, Louisiana, and New Jersey are the exceptions. These funds do not exist in cash but provide for licensed insurance companies in a given State to be assessed, after the fact, to pay for failures that occur. Additionally, the California life insurance guaranty fund is new and imposes certain restrictions on companies. The extent to which policyholders of the Executive Life company qualify for relief under California law may be uncertain.

Figure 7
U.S. insurance companies: Assets by type, year end 1989 as percentage of total



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financial companies, however, the financial positions of insurance companies at any given moment are determined by the state of the general economy, the real estate market, and similar factors. As indicated in Figure 7, however, insurers are generally conservative investors.

Although the State insurance guaranty funds have functioned adequately to date, regulators have questioned whether the failure of a large company, licensed in many States, could be successfully managed. As for the remainder of the 1990s, there is wide agreement among regulators and industry professionals that additional insolvencies will occur but that the overall system is financially sound.[21] The causes of insolvencies range from dramatic changes in market conditions (especially in commercial real estate valuations), to the failure of timely and competent regulation, to outright company fraud. At the most basic level, the current most important questions with regard to U.S. insurance company solvency are whether the book value of assets for life insurance companies is really as large as currently stated, and for nonlife companies, whether liabilities are as small as currently estimated.

[21] See testimony by the NAIC before the Senate Commerce Committee on insurance solvency regulation, Feb. 27, 1991. Additionally, see papers of the symposium sponsored by the NAIC, "Solvency of the Insurance Industry: The Regulators' Perspective", New York, Nov. 19-20, 1990. Also, Orin Kramer, *Rating the Risks: Assessing the Solvency Threat in the Financial Services Industry*, a study for the Insurance Information Institute, New York, Jan. 1991.

Reform

The congressional committee insurance investigations noted above have again raised the question of whether the State-by-State regulatory system is adequate or whether there is a need for some role or oversight function by the Federal Government in U.S. insurance regulation, particularly with regard to solvency questions. In 1990, departing from their historical positions, some major insurance trade associations agreed that there might be a place for some form of Federal coordination, regulation, or both.[22] In addition, the American International Group, a large U.S. insurer, has stated that the current system is onerous and inefficient and that some method should be instituted whereby insurers wishing to operate nationally could be licensed only once, rather than 50 times.

Many variations on these themes have existed for several years. State insurance commissions and many trade associations involved with insurance have until very recently remained adamantly opposed to any Federal role.[23] On April 17, 1991, however, immediately following the insolvency of the Executive Life company, the NAIC acknowledged that some Federal Government action in relation to

[22] See, for example, testimony of the American Insurance Association and the Independent Insurance Agents of America before the House Energy and Commerce subcommittee on insurance solvency, Sept. 14, 1990.

[23] See, for example, *National Underwriter*, Apr. 1, 1991, p. 1.

insurance regulation may be necessary. It recommended that Congress enact legislation that would require all non-U.S. insurers engaged in writing insurance in the United States be certified by an NAIC body.[24] In May 1991, the U.S. General Accounting Office issued a report stating that the NAIC was incapable of coordinating effective U.S. insurance regulation and called for the creation of a national insurance regulator.[25]

Other Concerns

Other regulatory issues of longstanding contention include the all-but-absolute exemption of insurance from U.S. antitrust laws. This practice essentially has allowed insurers to collaborate on risk sharing and cost information as long as States oversee their rates, practices, and solvency. Historically, for example, property/casualty insurers set their rates together, shared risk information, and agreed on common contractual language. Prices were set high enough to permit the more financially fragile companies to survive, thus making the limited number of insolvencies manageable. Price competition over the years, however, has gradually weakened these practices. In addition, public outcries over "collusion" among companies allegedly raising insurance prices unnecessarily has been increasingly forceful, and congressional attention has increased. The New York-based Insurance Services Office, the most important of the industry's collective rating bureaus, stopped publishing advisory rates for companies in 1990, in hopes that it could reduce political pressures for greater (especially Federal) regulation.[26]

The difficulty remaining for State insurance commissions, however, is in trying to balance public insistence for lower insurance rates (especially for automobiles), against the desire to preserve the thousands of small insurance companies who are thought to promote competition.

Distribution

Global Overview

The method by which a company distributes insurance is crucial to its success; without sales of policies, there is no business. It has long been an axiom of the industry that "insurance is sold rather than bought."[27] Depending on the insurance product and local market tradition, between 10 and 30 cents of every premium dollar is required for sales and marketing.[28]

Insurance is sold by agents or brokers. Agents work either exclusively for one underwriter or provide access to the policies of several insurance carriers. The use of agents is common for routine individual and commercial insurance needs; they provide their customers a great variety of life insurance plans (the largest part of which is enforced savings through pensions and annuities), or property and casualty coverage for the insurance of homes, cars, and business needs.

Brokers generally work for insurance customers and are expected to have knowledge of the overall insurance market. They tend to deal with larger clients such as companies seeking a master health or life insurance plan for all their employees, or exporters who need a variety of insurance services such as marine, port handling, foreign exchange, warehousing, transportation, and political risks. Large brokerage houses are often prominent in analyzing and initially penetrating the international insurance markets.[29]

Distribution is thus key to an insurance company entering new markets, whether at home or abroad. Such distribution networks take a great amount of time and resources to develop and administer.

U.S. Distribution Channels

U.S. insurance distribution networks are organizationally diverse. Some U.S. insurance companies are noted for their tied-agent sales system (e.g., State Farm) for the distribution of their products. Most U.S. insurance underwriters, however, rely on the thousands of independent agents and brokers who sell the policies of several insurance companies.

Additionally, banks have long sought to enter the U.S. insurance market. They have generally been forbidden to do so because of concerns over financial monopolies.[30] This is changing rapidly. Banks

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[24] See NAIC news release entitled "Regulators Back Federal Empowerment of NAIC in Regulation of Non-U.S. Insurers," Apr. 17, 1991.

[25] U.S. General Accounting Office, *Insurance Regulation: State Handling of Financially Troubled Property/Casualty Insurers*, Congressional testimony number T-GGD-91-37; report number GGD-91-92, May 21, 1991. *National Underwriter*, P/C edition, May 27, 1991, p. 1.

[26] *The Economist*, Oct. 27, 1990, p. S6.

[27] This axiom reportedly reflects the industry's experience that humans tend to suppress the existence of risk; it must thus be called to their attention. Bernard

[27]*—Continued*
Fink, "Global Marketing: An Alternative or Necessity," Paper delivered to the International Insurance Seminar of the International Insurance Society, San Francisco, CA, June 16-20, 1991.

[28] Ibid.

[29] A large percentage of brokerage-generated foreign insurance for U.S. underwriters, however, comes from U.S. multinationals doing business abroad.

[30] U.S. banks and bank holding companies generally are not permitted to sell and underwrite insurance except in limited circumstances. National banks are permitted to act as brokers to sell variable-rate as well as fixed-rate annuities for insurance companies. National banks may act as insurance agents in towns with a population of less than 5,000 even though the principal office of the bank is in a community with a population greater than 5,000. In connection with extensions of credit, the Office of the Comptroller of the Currency has permitted national banks to (1) act as brokers to sell and also to underwrite title insurance as well as credit life, accident and health insurance, and (2) act as brokers to sell collateral property insurance (vendors' single-interest insurance and vendors'

generally appear to be winning the argument that globalization of financial systems requires larger sized and financially diversified firms. Indeed, in 1991, the U.S. Treasury's proposals for major reforms of the nation's financial system would potentially permit considerably greater banking participation in the U.S. insurance market.[31]

The reasons for banks' interest in insurance are several. Banks already have well-established distribution networks. Most citizens go to their banks frequently and are used to dealing with financial matters there. Also, banks often know which of their customers have recently bought homes or cars, or have large discretionary incomes. It would therefore be relatively easy for them to target such customers for possible insurance purchases. In addition, insurance companies tend to have large amounts of cash that banks find useful, both to meet regulatory solvency ratios and to function as a quasi-capital source of continuing funds for investment in banking products. Investments by insurance firms also tend to be long term and stable in comparison with the other deposits banks rely on. For all these reasons, U.S. banks have long been interested in increased opportunities to enter the insurance business.

Performance and the Evolving U.S. Market

In 1990, the net premium receipts of U.S. life insurance companies increased by 8.8 percent over those in 1989, to $266 billion, the result mainly of continued strong sales of annuity and health insurance contracts and a renewed consumer interest in life plans (table 1). Measured by the face value of policy benefits, sales of life insurance increased by 4 percent. Life insurance companies' assets increased by 10.2 percent, to $1.4 billion, while employment remained stable at 576,300[32] The static employment figure reflects the increasing automation and applications of technology within the industry.

In nonlife (property/casualty) insurance, net written premiums grew by 4.4 percent in 1990, to $218 billion (table 2). The downward trend in commercial rates leveled off somewhat, but overcapacity and subsequent tough competition kept premium prices low despite increasing losses on claims. Although there was a slight increase in investment income, operating earnings after taxes declined sharply, to $5.6 billion. Asset growth slowed, while employment expanded by 2 percent.[33] In 1989, about 21.4 billion dollars' worth of reinsurance premiums were written in the United States.

The decade of the 1980s was a time of considerable change in the U.S. insurance industry, affecting the industry's structure, distribution systems, and focus.[34] Key elements included, in the life insurance sector, the aging of the "baby boomers" and their increased attention to adding to their pension and annuity purchases. Long-term investment is central to the business. The deregulation of some U.S. financial markets meant that interest rates for traditional whole life policies could no longer keep up with competing instruments. Insurers had to find new ways to give customers market-related returns. Low profits stretched capital in what is a traditionally overcapitalized industry.[35]

In the nonlife sector, property/casualty insurers have not made money on underwriting risks for a decade.[36] Reasons include overcapacity, weak prices, an unexpectedly large number of catastrophes such as hurricanes, U.S. tort law, and changes to the tax laws. Consumers are in revolt over prices, particularly for automobile insurance, which in the mid-1980s on average rose by more than 25 percent in a 2-year period (and much more in some areas). For example, California's voters approved "Proposition 103" in November 1988, which mandated a 20-percent cut in most motor vehicle insurance rates. At least four other States have followed the Proposition 103 lead.

Additionally, insurance consumers, especially large corporations, assumed more of their own risks through the formation of captive companies, the use of higher deductibles in their policies, or both.[37] This practice deprived many insurance companies of their "bread and butter" business. The number of direct insurers[38] increased. Agents and carriers were consolidated. Several U.S. States had to assume financial responsibility for their Workman's Compensation programs, because there was a lack of capacity[39] or willingness by the private sector to underwrite such

[30]*—Continued*
double-interest insurance). Federally licensed branches or agencies of foreign banks may conduct these same activities. Bank holding companies are more restricted in their insurance activities. A bank holding company may underwrite and sell credit life, accident, and health insurance related to extensions of credit by the bank holding company or any of its subsidiaries. Subsidiaries of foreign banks may engage in the same activity. State law governs the operation of State-chartered banks and State-licensed branches and agencies. Many States allow banks to act as insurance agents.

According to a Feb. 1991 study entitled "Banks Crowding Into Insurance" by Conning & Co., Hartford, CT, 20 percent of the nation's 13,000 commercial banks and 50 percent of savings institutions have some kind of insurance operation. A 1991 survey by the Independent Bankers Association of America, a Washington, DC-based trade association, found similar results.

[31] U.S. Department of the Treasury, *Modernizing the Financial System: Recommendations for Safer, More Competitive Banks,* (The Green Book), Feb. 1991.

[32] U.S. Department of Commerce, *1991 U.S. Industrial Outlook*, pp. 50-1 - 50-7.

[33] Ibid.

[34] *National Underwriter*, Mar. 25, 1991, pp. 36-39.

[35] *The Economist*, Oct. 27, 1990.

[36] This has been offset in most cases through investment profits, i.e., cash-flow underwriting. *The Economist*, Oct. 27, 1990, p. S8.

[37] The New York-based Risk and Insurance Management Society, RIMS, represents large U.S. corporate buyers of commercial insurance, including many corporations which have created captive companies or other "self insurance" mechanisms.

[38] See Appendix F, "Glossary of Insurance Terms."

[39] Ibid.

Table 1
U.S. life insurance: Key market data, 1987–91

Item	1987	1988	1989	1990[1]	1991[2]	Percent change 1987-88	1988-89	1989-90	1990-91
	Billion dollars								
Premium receipts	213.0	229.1	244.4	265.9	287.2	7.6	6.7	8.8	8.0
New life insurance purchases[3]	1,352.5	1,406.9	1,441.7	1,499.4	1,556.4	4.0	2.5	4.0	3.8
Life insurance in force[3]	7,452.5	8,020.2	8,694.0	9,476.5	10,357.8	7.6	8.4	9.0	9.3
Total benefits paid	71.4	74.1	80.2	84.2	88.8	3.8	8.2	5.0	5.5
Life insurance assets	1,044.5	1,166.9	1,299.8	1,432.4	1,572.8	11.7	11.4	10.2	9.8
Employment (SIC 6311)[4]	578.1	576.5	576.2	576.3	577.0	0.3	–0.1	–	0.1

[1] Estimate.
[2] Forecast.
[3] Excludes foreign business.
[4] Employees on payroll only.

Source: U.S. Department of Commerce, *U.S. Industrial Outlook 1991*, p. 50–1.

Table 2
U.S. nonlife (property/casualty) insurance: Key market data, 1987–91

Item	1987	1988	1989	1990[1]	1991[2]	Percent change 1987–88	1988–89	1989–90	1990–91
	Billion dollars								
Net written premiums	193.2	202.0	208.4	217.6	231.1	4.6	3.2	4.4	6.2
Underwriting gain (loss)	(7.1)	(8.4)	(16.5)	(23.1)	(30.0)	8.3	96.4	40.0	29.9
Net investment income	24.0	27.7	31.2	31.4	32.6	15.4	12.6	0.6	3.8
Operating earnings after taxes	11.0	12.9	9.1	5.6	1.7	17.3	–29.5	–38.5	–69.6
Assets	426.7	476.9	527.0	559.8	592.3	11.8	10.5	6.2	5.8
Policyholders' surplus	104.0	118.2	134.0	138.5	140.1	13.7	13.4	3.4	1.2
Employment (000) (SIC 633)	526.2	540.2	546.1	557.2	561.4	2.7	1.1	2.0	0.8

[1] Estimate.
[2] Forecast.

Source: U.S. Department of Commerce, *U.S. Industrial Outlook 1991*, p. 50–5.

risks because to do so was not profitable. The same was true in automobile insurance, where price controls and other strictures were placed on companies in several States in response to escalating auto insurance premiums in many jurisdictions. Table 3 indicates that auto premiums, for both liability and damage, increased more rapidly than any other nonlife sector during the years 1986-89.

Other changes in the U.S. insurance market over the past decade included considerable transformations in the environmental/pollution liability issue, a huge rise in million-dollar tort claim judgments,[40] and continuing debates on regulation of the insurance industry and related solvency issues. Increased foreign direct investment in the U.S. market occurred (see international investment section, below) and banks continued to press for the right to enter insurance markets.

Although many of the above actions were important milestones, the industry's basic structure and operation remains much as it has since 1946. Myriad companies continue to operate and are regulated by the 50 States. Companies enter and leave the system, and new products are introduced. Thus, although consolidation of the industry and regulatory reform continue to be topics of increasingly intense public concern and congressional interest, structural change to the system has not thus far occurred.

The European Community (EC)

Market Structure

The $290 billion annual gross premium EC insurance market accounts for about 5.5 percent of EC GDP.[41] Viewed in a broader financial context, more than ECU 1 trillion ($1.2 trillion) is tied up in pension funds in the Community, a significant proportion of these in life insurance plans.[42]

The 12 national EC insurance markets have thus far been highly fragmented in terms of market accessibility, size, and regulation. The Community has about 4,400 insurance companies, and the insurance industry employs roughly 1 million, of which about half are intermediaries, e.g., agents and brokers.[43] Of gross premiums received, 59.5 percent were in the nonlife sector and the rest (40.5 percent) in the life sector.[44] (Figures 8 and 9 show the distribution of firms, by number, type, and nationality.) The five largest European insurers, ranked by premium income in 1990, were Allianz (Germany), Union des Assurance de Paris, UAP (France), Zurich (Switzerland), Generali (Italy), and Prudential (United Kingdom).[45]

Regulatory Environment

There is a considerable difference in insurance regulatory philosophy among EC states. The United Kingdom, the Netherlands, and Ireland regulate their industries relatively lightly,[46] focusing largely on the solvency of a company. They largely leave it to consumers to compare the coverage of risks in policies and the prices paid for them. The other EC member states have varying degrees of more intense regulation. The German system is perhaps the most strict, reviewing each new insurance product before it can be sold, judging how that product will fit into the insurance company's "plan" submitted previously to the regulators, and in many cases setting the price bands that a company can charge for a given insurance product. Some German insurance companies assert that German consumers insist on this level of regulation and protection. Others see signs of a growing consumer movement in which individuals are more ready to compare policies and prices on their own, without the guidance of the state.[47]

Distribution

Distribution concerns are driving the insurance market within the European Community and Western Europe. Banks already have excellent distribution networks. Several EC member states already permit universal banking, which includes the sale, and sometimes the underwriting, of insurance. This combination of factors has led to a great deal of merger and acquisitions activity among banks and insurance companies within the EC. One of the primary motivations behind this trend is the desire to obtain quickly an insurance distribution network to compete effectively when the EC 1992 directives enter into effect.

Methods of insurance distribution differ from country to country in Europe. The Netherlands, for example, relies almost exclusively on independent agents, and 95 percent of the British market is generated from brokers and intermediaries.

[40] The number of million-dollar jury verdicts increased from about 100 in 1980 to 600 in 1985 and fell back to about 490 in 1989. See *The Economist*, Oct. 27, 1990, p. S10.

[41] EC Commission, *Panorama of EC Industry, 1990*, pp. 26-27.

[42] Sir Leon Brittan, vice president of the European Community, speech to the European Committee of Insurers, Brussels, Nov. 27, 1989.

[43] European Community, *Panorama of EC Industry, 1990*, pp. 26-35.

[44] EC Commission, *Panorama of EC Industry, 1989*, pp. 29-9 to 29-16.

[45] The contrast of this list with that contained in appendix B demonstrates the difficulty of ranking financial institutions such as insurance companies. The Allianz company of Germany, for example, chooses to exclude the assets of its subsidiaries in its annual accounts, and German law permits companies to value assets at their lowest-ever cost, rather than at current market prices. A recent EC 92 directive on insurance accounts, however, is designed to force changes in these procedures and will begin to bring greater transparency and comparability to European insurance company accounts.

[46] See overview section on Regulation of the U.S. Insurance Market for an explanation of this terminology.

[47] Conversations with insurance sources in Europe, Jan. 1990.

Table 3
U.S. nonlife insurance: Net written premiums by major lines of business, 1986–89

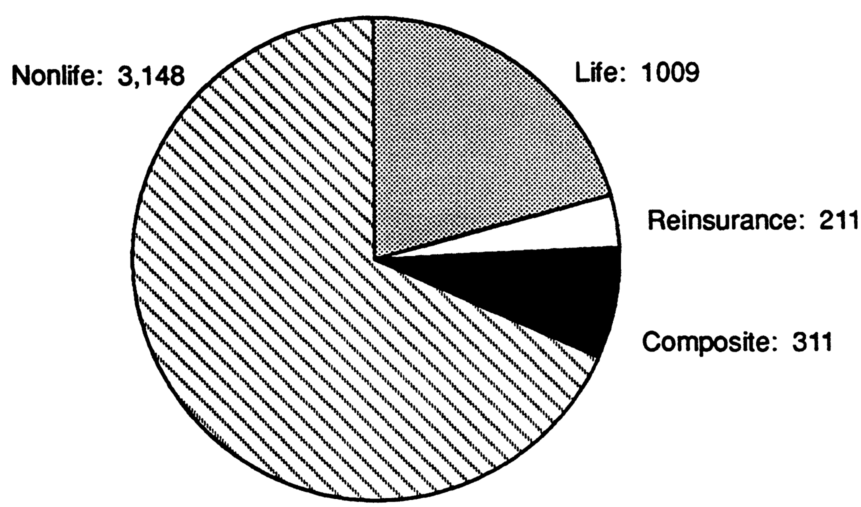
(Billion dollars)

Item	*1986*	*1987*	*1988*	*1989*
Total, all lines	176.6	193.2	202.0	208.4
Automobile, total	73.4	81.2	86.4	90.9
Auto liability	44.1	49.2	52.5	56.0
Auto physical damage	29.3	32.0	33.9	34.8
Liability other than auto	22.9	24.9	23.1	22.7
Fire and allied lines	6.9	7.7	6.9	7.0
Homeowners' multiple peril	15.2	16.7	17.1	17.7
Commercial multiple peril	16.2	17.2	17.7	17.5
Workers' compensation	20.4	23.4	26.1	28.2
Marine, inland and ocean	5.1	5.5	5.5	5.6
Accident and health	2.9	3.8	4.7	4.6
Other lines	13.6	12.8	14.5	14.2

Note.—Data may not add to totals due to rounding.

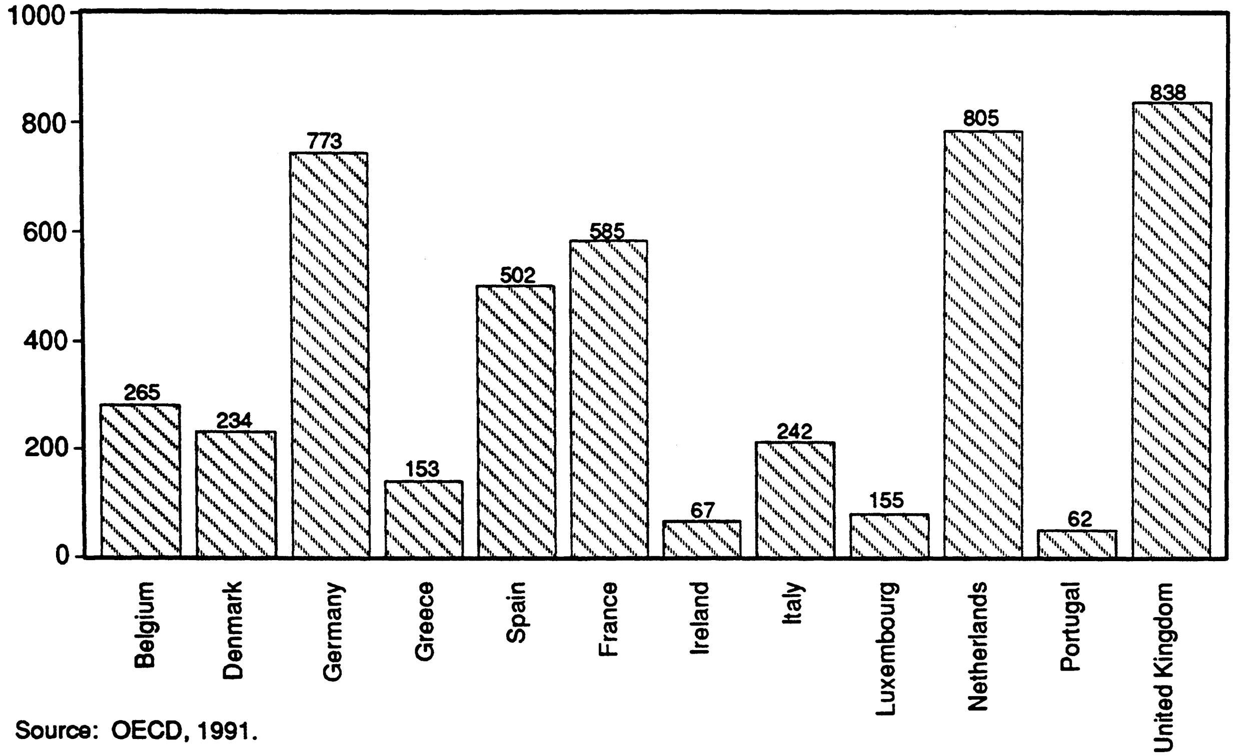
Source: U.S. Department of Commerce, *U.S. Industrial Outlook, 1991.*, p. 50–5.

Figure 8
Number of insurance companies in the European Community, by types, 1988



Source: OED, 1991.

Figure 9
Number of insurance companies licensed in each European Community member state, 1988



Source: OECD, 1991.

Switzerland[48] and Germany, conversely, operate predominately (more than 85 percent) through tied agents and company salespeople. Not surprisingly, it is very difficult for foreign companies starting out in Europe to gain a significant market presence in the latter countries, because there are no established independent distribution networks.[49]

These factors have led to an acceleration of mega-mergers and acquisitions within Europe over the past 3 to 4 years—among insurance companies domiciled in different EC member states, as well as among insurance companies and banks.[50] The market is ahead of the legislators in rather comprehensively restructuring how insurance is bought and which companies might dominate certain markets.[51] Indeed, banking and insurance company linkups have become so common that the French now talk of "bancassurance" and the Germans refer to "Allfinanz."[52]

Figures 10 and 11 reflect the increased pace of cross-border mergers and acquisitions by EC financial institutions (including banks, insurance companies, and investment and commodity firms) on a global basis. A large part of this activity, however, is taking place within the borders of the EC.

The Evolving Market

The EC member states are undergoing a major internal trade liberalization—the "EC 1992" market integration program.[53] If the currently proposed insurance directives of the European Council are enacted fully, obtaining a license in one nation of the Community will enable an insurance company to underwrite and sell insurance in all 12 member states.[54] Companies will be regulated, moreover, only by their country of domicile. A "common passport, single license" system will thus be created.

The single-market process is well under way, and cross-border trade is expected to increase substantially. Increased competition will result, and the number of

[48] Switzerland is mentioned here because it has signed a bilateral treaty with the EC, giving its insurance companies the same rights and status within the Community as native EC companies.

[49] Phillips & Drew, *European Insurance Review*, June 1990.

[50] A list of recent European mergers and acquisitions can be found in UBS Phillips and Drew, *European Insurance Review*, app. 5, June 1990.

[51] Conversations with insurance sources in Europe, Jan. 1990.

[52] U.S. International Trade Commission, *The Effects of Greater Economic Integration Within the European*

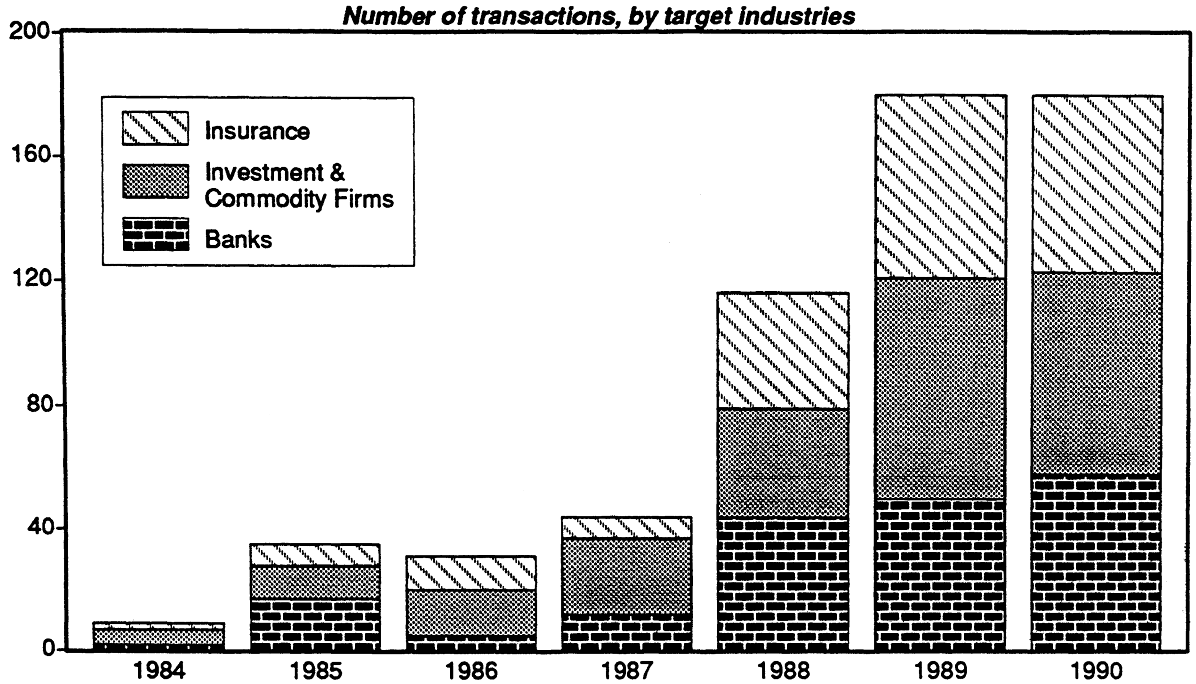
52—Continued

Community on the United States: First Follow-Up Report (investigation 332-267), USITC publication 2268, Mar. 1990, p. 5-23.

[53] For a more detailed discussion of EC directives and their effects, see ibid., pp. 5-16 to 5-27.

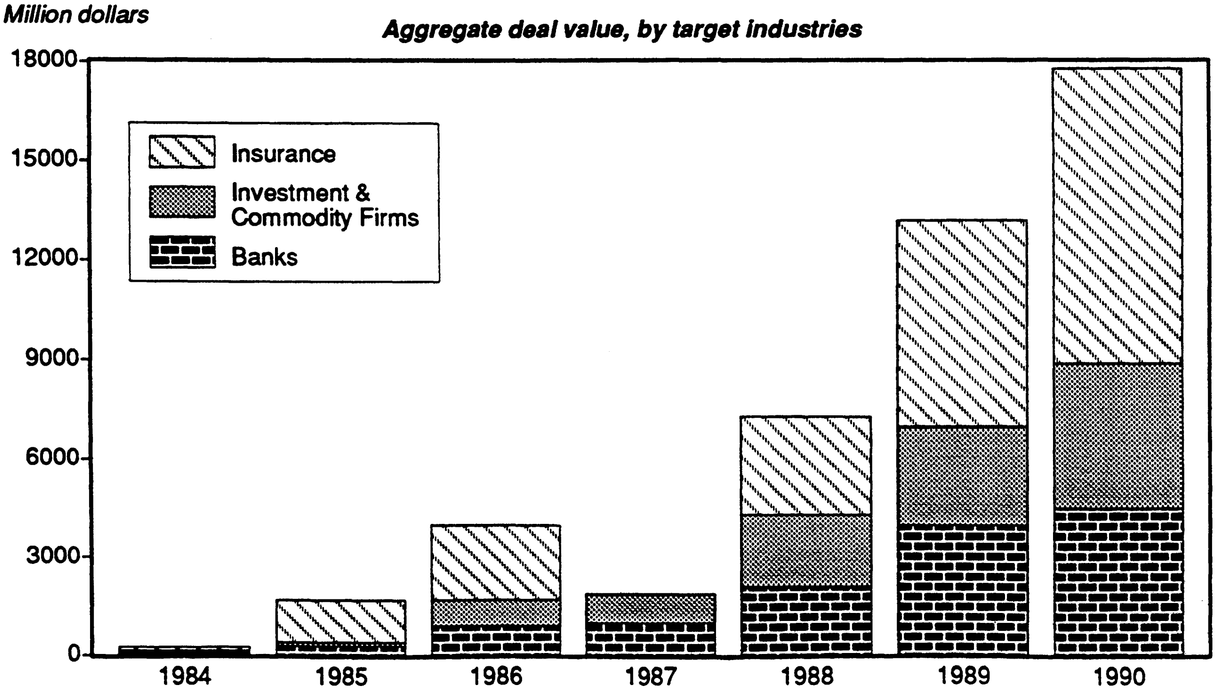
[54] In the case of foreign companies, these provisions will apply to subsidiary companies only, not to branch operations of non-EC companies.

Figure 10
Cross-border financial institutions transactions by European Acquirers, 1984-90



Source: Wasserstein Perella & Co., New York.

Figure 11
Cross-border financial institutions transactions by European Acquirers, 1984-90
Million dollars



Source: Wasserstein Perella & Co., New York.

small companies operating could decrease significantly. Such competition could contribute to greater market efficiency within the EC, with a decline in insurance costs. Currently, insurance prices vary widely between national jurisdictions (table 4).

There is a noticeable north/south split in development of the EC insurance market, with the levels of expenditure for both life and nonlife insurance being much lower in the southern group of countries than in the north.[55] The southern tier of markets is growing faster and is expected to continue to do so. The life insurance markets of Italy and Spain, for example, are growing very rapidly as consumers' discretionary income expands and state-sponsored pension plans are perceived as being inadequate.

In almost all global markets, however, including those of the EC, the United States, and Japan, the actual number of insurance companies that do extensive business outside their home markets is very small. The major exceptions are Switzerland[56] and the special role of Lloyd's of London in the United Kingdom. However, because of the small size of their individual home markets and the proximity of their neighbors, several national European insurance industries have tended to have greater "international" sales than the norm, making sales across their borders to neighboring EC states. Such cross-border trade within Europe is expected to increase significantly with the full implementation of the EC 1992 program.

Japan

Market Structure

Insurance is a big business in Japan. Annual gross insurance premiums of about $265 billion represent nearly 10 percent of Japan's GDP. The industry is characterized by a small number of companies with a high market concentration ratio.[57] Life insurance predominates, accounting for 75 percent of the nation's insurance premiums. The 21 life insurance companies[58] have some 110 trillion yen ($815 billion) in assets and are Japan's biggest stockholders. Indeed, one estimate asserts that the largest life insurance company, Nippon Life, owns 3 percent of the outstanding shares listed on the Tokyo Stock Exchange.[59] The size of the Japanese life insurance market now exceeds that of the United States, making it the largest in the world ($199 billion in premiums in 1989). Nonlife insurance represents the remaining 25 percent of the total market. There are some 60 nonlife companies licensed in Japan, and the industry is very highly concentrated: the top-10 firms have about 80 percent of the market.

Tables 5 and 6 outline statistical information on Japanese life and nonlife companies.

Regulatory Environment

The Japanese Ministry of Finance (MOF) regulates both insurance and banking. Indeed, the insurance sector reports to the banking division within the MOF. The system favors the financial stability of insurers over other factors. Limited competition and circumscribed insurance products are preferred to insurance company insolvencies, even though they result in higher insurance premiums for consumers and lower dividends for stockholders. Only one insurance company licensed in Japan, of Philippine origin, has been declared insolvent since the turn of the century.[60]

All insurance premium rate changes for nonlife products must be reviewed by regulators, but roughly half are initially set by the Marine and Fire Insurance Association of Japan—an association of nonlife companies. Additionally, premium rates charged by life insurance companies are the same for all, but dividends paid to policyholders may differ—if the MOF agrees. In marketing their products, companies are legally restricted from telling consumers their relative market or investment performance, i.e., no comparisons are permitted. The MOF has very strict guidelines for the investment portfolios of insurance companies.[61]

Distribution

The large Japanese industrial groups, such as Mitsubishi, Mitsui, Sumitomo, and Yasuda are organizations having a variety of industrial and commercial companies within them, including banks and insurance companies. There are longstanding historical linkages within the groups, reinforced by factors ranging from the cross-holding of shares and networks of indebtedness to old-school ties and intermarriages. For example, since Mitsubishi Bank,

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[55] D. Farny and E.R. Schmidt, *Empirical Enquiry on the Single Insurance Market Within the European Communities After 1992: Attitudes, Expectation and Appraisals of Insurers* (Geneva: Association Internationale pour l'Etude de l'Economie de l'Assurance and Institut für Versicherungswissenschaften, University of Cologne, 1989).

[56] Switzerland is mentioned here because it has signed a bilateral treaty on insurance with the EC, giving its companies the same rights and status within the Community as native EC insurers.

[57] Market concentration ratio comparisons between Japan and the United States indicate sharp differences. Japans's 15 largest life insurers, which sell to a market roughly the size of the U.S. market, average about $11 billion in annual premiums, compared with about $5 billion for the top-15 U.S. life companies. Similarly, Japan's 15 largest nonlife companies are, on average, only 3.6 times larger than all the other nonlife companies. In the United States, the top-15 nonlife insurers would be about 125 times larger than the average company. *Sigma*, Swiss Re, Feb. 1989.

[58] These are of Japanese domicile. Another four life companies are ultimately domiciled only partially in Japan, or in other countries.

[59] *Global Finance*, May 1991, p. 52.

[60] Teruhiko Marugama, Vice President, Tokio Fire and Marine, speech to the International Conference of Insurance Regulatory Officials, meeting in association with the NAIC, Cincinnati, OH, June 6, 1990.

[61] Standard and Poor's Insurance Rating Service, *Japanese Insurance Market Report*, June 1990.

Table 4
Comparative "prices"[1] of European insurance services, by products, for selected EC nations

Product	*Belgium*	*West Germany*	*Spain*	*France*	*Italy*	*Nether-lands*	*United Kingdom*
Life insurance (average cost per annum)	78	5	37	33	83	-9	-30
Home insurance (premium for fire and theft)	-16	3	-4	39	81	17	90
Motor insurance (annual comprehensive premium)	30	15	100	9	148	-7	-17
Commercial fire and theft (annual cover)	-9	43	24	153	245	-1	27
Public liability cover (annual premium)	13	47	60	117	77	-16	-7

[1] Percentage differences in prices compared with the average of the 4 lowest national premiums.

Note.—The figures indicate the extent to which premiums in each country are above or below reference level.

Source: EC Commission, as cited in *ReActions*, Dec. 1989, p. 19.

Table 5
Japanese life insurance companies, premium income, 1986-88, and compounded annual growth rate (CAGR), 1986-88

	1988	*1987*	*1986*	*CAGR*[1]
		Million yen		*Percent*
Nippon	4,828,784	4,470,372	3,949,996	15.1
Dai-ichi	3,502,584	3,045,596	2,876,064	16.9
Sumitomo	3,208,748	2,825,940	2,464,867	18.3
Meiji	2,187,396	1,903,966	1,619,203	17.9
Asahi	1,647,260	1,405,875	1,268,483	15.6
Mitsu	1,373,495	1,189,868	1,012,148	15.3
Yasuda	1,310,711	1,077,258	883,861	15.4
Chiyoda	1,187,026	786,706	543,184	29.8
Taiyo	1,113,270	1,003,454	891,346	8.8
Toho	1,034,069	795,610	680,425	28.3
Nippon-Dantai	775,531	383,825	335,832	29.1
Kyoei	773,951	620,002	485,573	21.2
Daihyaku	748,817	536,013	450,540	18.1
Daido	720,724	595,324	503,180	22.2
Nissan	698,011	318,101	135,577	51.3
Fukoku	605,517	407,548	341,442	24.0
Toyko	325,478	150,374	130,680	27.6
Seibu Allstate	112,539	26,216	19,296	58.7
Heiwa	70,396	67,250	63,631	8.9
Yamato	52,063	39,169	34,036	17.9
Taisho	49,178	44,601	37,669	12.3
Sony Pruco	26,144	13,987	7,673	[2]69.5
INA	16,386	9,228	6,771	[2]63.1
Equitable	8,959	9,606	341	[2]412.6
Prudential	1,513	([3])	([3])	([3])
Total	26,379,090	21,725,889	18,741,818	18.3

[1] CAGR-Compound annual growth rate last 5 years.
[2] Less than 5 years.
[3] Not available.

Source: Standard and Poor's Insurance Rating Service, *Japanese Insurance Market Report*, June 1990. Reprinted with permission.

Table 6
Largest Japanese nonlife insurance companies, net premiums and market share, 1987 and 1988

	Net premiums 1988	*Market share*	*Net premiums 1987*	*Market share*
	Million yen	*Percent*	*Million yen*	*Percent*
Tokio Marine & Fire Ins. Co. Ltd	834,851	17.68	758,135	17.37
Yasuda Fire & Marine Ins. Co. Ltd	622,217	13.18	565,267	12.96
Taisho Marine & Fire Ins. Co. Ltd.	400,248	8.48	371,148	8.50
Sumitomo Marine & Fire Ins. Co Ltd.	338,841	7.17	309,363	7.09
Nippon Fire & Marine Ins. Co. Ltd.	288,382	6.11	262,425	6.01
Dowa Fire & Marine Ins. Co Ltd.	172,104	3.64	161,813	3.71
Nissan Fire & Marine Ins. Co. Ltd.	200,964	4.26	192,301	4.41
Koa Fire & Marine Co. Ltd.	207,020	4.38	189,708	4.35
Chyoda Fire & Marine Ins. Co. Ltd.	265,239	5.62	245,671	5.63
Nisshin Fire & Marine Ins. Co. Ltd.	118,829	2.52	115,574	2.65
Nichido Fire & Marine Ins. Co. Ltd.	287,496	6.09	266,962	6.12
Fuji Fire & Marine Ins. Co. Ltd.	249,486	5.28	229,850	5.27
Dai-Tokyo Fire & Marine Ins. Co Ltd.	300,386	6.36	283,352	6.49
Kyoei Mutual Fire & Marine Ins. Co.	139,257	2.95	132,042	3.02
Taisei Fire & Marine Ins. Co Ltd.	76,451	1.62	72,318	1.66
Dai-ichi Mutual Fire & Marine Ins. Co.	47,085	1.00	43,157	0.99
Toyo Fire & Marine Ins. Co. Ltd.	21,318	0.45	20,133	0.46
Asahi Fire & Marine Ins. Co. Ltd.	28,744	0.61	27,503	0.63
Taiyo Fire & Marine Ins. Co. Ltd.	11,799	0.25	11,237	0.26
Daido Fire & Marine Ins. Co. Ltd.	10,564	0.22	9,629	0.22
Allstate Auto & Fire Ins. Co. Ltd.	7,158	0.15	5,368	0.12
Tao Fire & Marine Reins. Co. Ltd.	76,101	1.61	74,744	1.71
Japan Earthquake Reins. Co. Ltd.	18,130	0.38	17,509	0.40

Source: Standards and Poor's Insurance Rating Service, *Japanese Insurance Market Report*, June 1990. Reprinted with permission.

Mitsubishi Corp., and Mitsubishi Trust are the largest shareholders in the Tokio Marine and Fire Insurance Co., it is not surprising that they tend to purchase their corporate insurance from that company.[62] A large amount of Japan's commercial insurance is underwritten and sold through such relatively closed groups, reinforced by the regulatory system that has tended historically to discourage disruptive competition and favor a highly concentrated insurance market. Importantly, Japan has no broker system. At the level of individual insurance, Japanese insurance companies (as well as in other Far Eastern markets such as Korea) are known for the hundreds of thousands of part-time housewives, gas-station attendants, auto dealers, tax consultants, real estate agents, and others they employ to sell policies to friends, neighbors, and regular customers.[63]

The Evolving Market

The Japanese Ministry of Finance is currently undertaking a gradual liberalization of the nation's financial community, breaking down the walls that have traditionally separated banking, securities, and insurance. Each of these sectors increasingly offers overlapping products, and this trend is expected to continue. Competition among sectors is thus rising: securities firms are competing with banks for customer deposits by offering short- and medium-term Government bond funds. Insurance companies are competing for the savings yen, especially through life insurance. Banks and all insurance companies offer savings-type products, and more than half the assets of some nonlife companies are now related to savings products.

A small revolution is taking place in the Japanese stock markets. Life insurance companies have long been known as the "sleeping lions" of the market because of their heretofore largely passive huge investments; they have been restricted by law from owning more than 10 percent of any one company or from holding seats on corporate boards. Recent high interest rates and poor stock market performances in Japan, however, are changing the pattern. The President of Nippon Life, Joei Ito (who is also president of Japan's Life Insurance Association), has succinctly explained why life insurers are now more active and selective in their stock market investments. "The average annual dividend yield of the Nikkei 225 stands at 0.5 percent of market value and 2 percent of book value," said Mr. Ito early in 1991. "Meanwhile, life insurers are expected to pay dividend yields of 5.5-6.25 percent to policy holders. From now on, life insurers, as the largest investor group, will become vociferous, calling for normalization of the stock market."[64]

[62] Michael Lewis, "Pacific Rift," *Best of Business Quarterly*, summer 1991.

[63] Takashi Kagawa, Tokio Marine and Fire Co., paper delivered to the World Insurance Congress, London, July 1-3, 1991.

[64] *Global Finance*, May 1991, p. 52.

Japanese financial firms are also making considerable investments abroad, although in the insurance field such investments have so far been relatively modest, e.g., percentages of joint ventures in Europe and the United States.[65] Additionally, the internationalization of the yen and a generally more competitive financial system have reduced the differential between Japanese and foreign interest rates. All these changes are occurring gradually, but taken together they represent a significant shift in the way Japan's financial sector operates.[66] There is no question, however, as to where the world's largest financial firms (including insurance) are concentrated in the early 1990s: Figure 12 indicates that in January 1991, 22 of the world's 25 largest financial institutions, ranked by market capitalization, were Japanese.

Other Countries

The global insurance market not covered by the United States, the European Community, and Japan accounts for only 17 percent of the total world market. Sixty-four countries, however, had premium volumes of at least $100 million in 1989. Their relative ranking in terms of global market share, and insurance premiums as a percentage of GDP in each country, are found in appendixes A and C of this report. With significant exceptions, many of the national insurance markets of South and Southeast Asia, the Middle East, Latin America, Central and Eastern Europe, and Africa have, in past decades, been dominated by state owned or controlled companies.[67] The expropriation of private companies was a feature of many of these economies, starting from that of the Soviet Union in the 1920s, to Mexico in 1935, to Central and Eastern Europe in the late 1940s, to China, India, and much of Latin America in the 1950s, and to large numbers of African nations during the independence movements of the 1950s and 1960s. In many countries, investment by outside capital continues to be heavily restricted or forbidden, the repatriation of dividends or profits limited, investments confined to local ventures, reinsurance controlled, and regulation made onerous.

This picture began to reverse itself in the 1980s, starting in Southeast Asia. The four "tiger" economies of Korea, Taiwan, Hong Kong, and Singapore expanded rapidly, and their insurance markets with them. The trend to greater overall market decentralization and liberalization was sometimes assisted by political pressures exerted by their trading partner nations. Other countries in the Association of Southeast Asian Nations (ASEAN) gradually followed this lead in the 1980s, including Thailand, Indonesia, Malaysia, and to a lesser extent, the Philippines. In a different way, the dramatic changes in governments in Central and Eastern Europe in 1989-90 has had the effect of re-creating insurance markets in those countries. Foreign investment is increasingly common in the insurance markets of Poland and Hungary, and the (formerly) East German market has been privatized. Additionally, considerable change is beginning to be seen in the southern portions of the Western Hemisphere. Given impetus by the reforms and liberalization of the Mexican economy in 1988-90, private insurance markets there are again welcoming foreign capital. Chile is making significant progress, and some liberalization, although limited, can be foreseen in the large economies of Brazil and Argentina. However, little change has thus far taken place in the state-controlled, restricted insurance markets of the Soviet Union, China, India, or Africa.

Future Global Markets and Insurance Density

The U.S. insurance market is mature and, many industry sources believe, largely saturated. The real growth rate for U.S. 1989 insurance premiums (the latest available data) was only 0.3 percent, compared to the 1987 and 1988 rates of 5.8 percent and 2 percent, respectively. Japan's insurance growth rate also experienced a decline (18.9 percent in 1988 to 4.2 percent in 1989), due to the restructuring of Japanese financial markets, the weakening of the yen against the dollar (in which the statistics are calculated), and the decrease of "maturity refund" policies sold on general property insurance and accident insurance. The nonlife sector slowed globally. Exceptions included South Korea, Brazil, Thailand, Chile, and Mexico, all of whom had nonlife growth rates exceeding 10 percent. In the life insurance sector, U.S. and Japanese markets grew by 1.7 and 4.3 percent, respectively. Europe, by contrast, grew by 11.9 percent, with exceptional real growth rates exceeding 20 percent occurring in Portugal, Greece, Turkey and Cyprus.[68]

Insurance "density" indicates the average amount spent per capita on insurance in a country and, when coupled with national growth rates, is considered by industry analysts as an indicator of growth in potential future insurance markets. As measured in yearend-1988 U.S. dollars, this insurance density ranged from $2,375 in Switzerland, to $2,149 in Japan; $1,817 in the United States; $1,241 in West Germany; $406 in Italy; $307 in Taiwan; $38 in Venezuela; $27 in Mexico; $2.40 in China; and $2.00 in Nigeria.

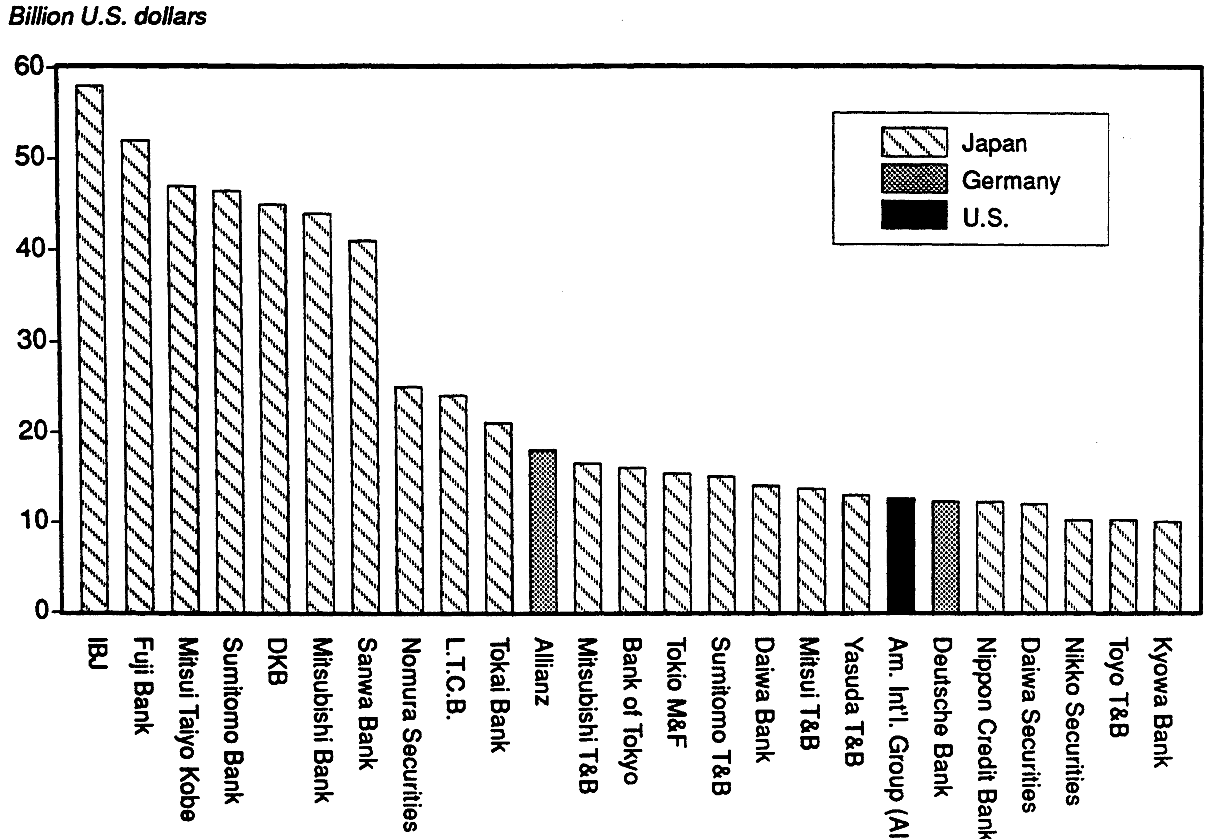
[65] In 1990, for example, Dai-Ichi took a 9.6-percent equity stake in Lincoln National, a major U.S. insurer. Keeping the stake below 10 percent avoids certain U.S. reporting/disclosure rules. Similarly, Dai-Ichi took a 5-percent equity stake in the large French/German Bank IndoSuez-led merger of Victoire, Colonia, and UAP in December 1989.

[66] Standard and Poor's Rating Service, *Japanese Insurance Market Report*, June 1990.

[67] As a general rule, governments often treat financial services such as banking and insurance in the same way. Thus, if the banking industry of a country undergoes either state expropriation (or conversely, liberalization), the same will be true of its insurance industry.

[68] *Sigma*, Swiss Reinsurance Co., 2/1991.

Figure 12
World's 25 largest financial institutions ranked by market capitalization, as of Jan. 2, 1991



Source: Wasserstein Perella & Co., New York

(Appendix D delineates insurance densities for 64 countries.) Figure 13 indicates a major U.S. insurance company's view of the development potential for global insurance in the 1990s.[69] The projection foresees no increase in the North American market but indicates continued strong growth in Asia and Western Europe and a 24-percent growth rate for Central and Eastern Europe.

Impact of Technology

The role of technology in the insurance industry is sometimes underestimated. High technology already plays a large role in the analysis and placement of insurance company investment funds, which is done on a global basis in many types of financial markets. Furthermore, advanced technology makes possible increasingly sophisticated risk evaluation, which has always been dependent on the modeling and prediction of disasters calculated using a base of large numbers.

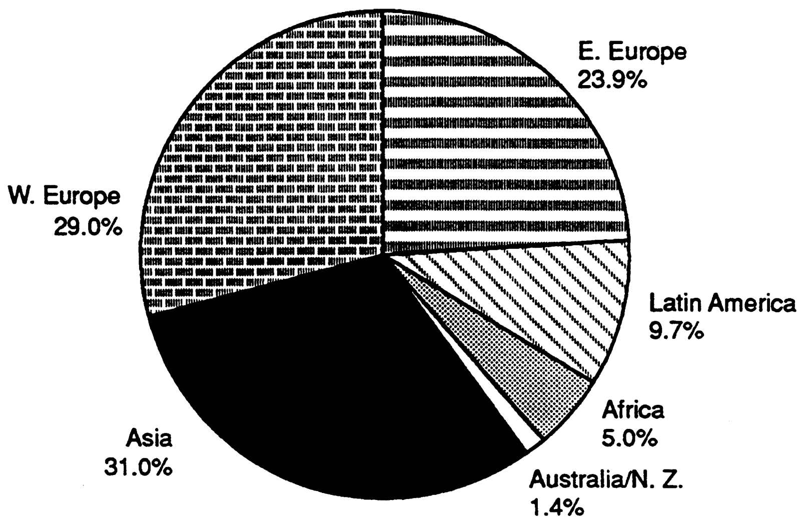
[69] As reported by Mr. Bengt Westergren, executive vice president, American International Group, to a *Financial Times*-sponsored European Insurance Forum, London, Feb. 18-19, 1991.

The actuarial risks evaluated by such numbers determine insurance prices. Examples of risk evaluations include the likely life span of a U.S. male who doesn't smoke, the numbers of school classrooms constructed in the United States using asbestos building materials between the years 1950 and 1970, or the likelihood of U.S. East Coast hurricanes during the years 1990-2000.

The international insurance market is also highly dependent on modern telecommunications for keeping track of global risks, safety conditions, and potential disasters. Telecommunication links allow the risks to be evaluated on a real-time basis so rates may be adjusted accordingly. At a more routine level, technology is revolutionizing sales and underwriting methods. For example:[70]

[70] David A. Kocher, "Managing for Profit: Short-Term Profitability vs. Long-Term Survival," paper delivered to the International Insurance Symposium of the International Insurance Society, San Francisco, CA, June 16-20, 1991.

Figure 13
Insurance: Likely development potential of global markets in the 1990s, by regions



Source: Westergren, Bengt, AIG, paper presented to Europeran Insurance Forum, London, Feb. 18–19, 1991.

- Underwriting and claim professionals have instant access to information and the ability to exchange that information quickly through online manuals, rates, and electronic mail networks linking a company with its agents and even its customers.
- Using laptop computers, it is possible for an agent to have access to the rating and pricing information needed to issue a policy right in the customer's office.
- Today, for an agent to get a response from an underwriter on a company's underwriting posture towards a certain class of business, it may take a 2-day game of "telephone tag." Tomorrow, it will take 5 seconds for the agent to complete an online search and receive an instant response through electronic mail.
- The speed at which insurers deliver services will increase dramatically. For many customers, that will mean that their requests are handled in a single phone call with no paper forms and no delay.
- Adding a car to an auto policy in 7 days used to be considered fast service. Tomorrow, 7 minutes will likely be considered unacceptably slow.

Technology also enhances the industry's ability to conduct business internationally, as the evaluation of risk and the powerful marketing tools of technology become increasingly available on a worldwide basis. Also, improved technological communications have made new international markets possible. In 1991, for example, a trade association for 4,200 U.S. independent insurance agents proposed a direct link with a U.S.-based Lloyd's of London broker, who would underwrite initial insurance applications for specialized insurance needs (surplus lines[71]) and give participating agents a price quotation and acceptance or rejection of a risk within 48 hours.[72] Other technology-led innovations include a proposal by the Chicago Board of Trade (CBOT) to develop an insurance futures market. The CBOT has apportioned $1 million to study the project and aimed to open an insurance futures market by October, 1991.[73]

International Investment

International Versus Local Markets

In general, the insurance industry has not traditionally been an international industry, tending to spread risks locally or nationally rather than internationally. The industry rule of thumb is that something less than 10 percent of premiums are traded internationally in some fashion, either cross-border or through direct foreign investment.[74] Thus, wherever

[71] See Appendix F, "Glossary of Insurance Terms."

[72] *National Underwriter*, Property and Casualty ed., Jan. 7, 1991, p. 1, and Mar. 25, 1991, p. 20.

[73] Chicago Board of Trade, "Health and Automobile Insurance Futures," statement of June 25, 1990. Also, *National Underwriter*, Mar. 4, 1991, p. 1.

[74] Direct cross-border sales are a small fraction of the total, perhaps 2 to 3 percent. Reinsurance and marine insurance will be the most international in character by a large margin.

sold, a life, health, or property claim will tend to be serviced, administered, and paid in the same country in which the premium is collected. This practice is due largely to the complexities of differing legal/regulatory systems (e.g., subpoenaing records, enforcing the resolution of disputes over claims), rather than currency exchange-rate fluctuations or difficulties in distribution.

Cross-border underwriting and sales may, however, increase considerably as insurance regulatory authorities attempt to converge and harmonize their procedures.[75] For example, cross-border transactions in the global banking and securities markets have increased as regulations were harmonized. The evolution of the European Community insurance market and the insurance programs of multinational corporations are current examples of this internationalization in insurance. Reinsurance and ocean marine insurance are already highly international in character. However, for most service industries, including insurance, international business almost always requires foreign companies to open an office and be licensed in the importing country, i.e., producers must be "established" locally. A U.S. citizen or corporation, for example, would be reluctant to buy fire or automobile insurance from a company whose nearest office was in the United Kingdom; but they might well buy insurance from a British-owned company that had offices in their hometown. Indeed, in many cases consumers do not know the ultimate national parentage of companies from which they purchase services. This foreign direct investment (FDI) aspect is an important element in international service transactions and is significantly different from the cross-border "direct" import/export trade normally associated with merchandise trade.

On the investment side, the insurance business is increasingly international. When insurance regulatory authorities permit them to do so, insurance companies invest the cash obtained from insurance premiums in assets and investments wherever a relatively safe, higher rate of return can be obtained. This trend toward investing in global financial markets is likely to continue and expand.

U.S. Foreign Direct Investment in Other Countries

Currently perhaps only 5 to 10 U.S. insurance companies (of over 5,000) have offices or joint-venture businesses in more than 10 countries. Indeed, there may be no more than 100 to 200 U.S. insurance companies who have any type of foreign operation at all. Of this latter number, participation in the Canadian insurance market would account for the great majority.

[75] The U.S. NAIC has sponsored an annual gathering of international regulators for the past several years. Although still in its infancy, the meeting draws increasing numbers of nations and offers a forum for regulators from many countries to get to know each other and to exchange information and views.

The most important markets for U.S. insurers establishing subsidiaries and branches (i.e., "affiliates") abroad include the European Community, Canada, and Japan (table 7). In terms of sales (premiums plus investment income), 641 U.S. subsidiaries and branches abroad garnered an estimated $28 billion[76] in 1988 (table 8).

U.S. Insurers in the EC Market

Although some U.S. insurance activities related to the European Community (EC) market may originate in the United States, insurance services by U.S.-based firms are generally provided by branches or subsidiaries established in the EC.[77] U.S. companies have several strengths that should help them expand their businesses abroad. U.S. companies have more experience than foreign competitors in offering innovative policies to diverse customers, in dealing with several regulatory authorities within a generally accepted set of rules, and in taking advantage of large economies of scale in the marketing and administering of insurance policies. U.S. companies also tend to be technologically sophisticated. These strengths may be useful in the "common passport" market of post-EC-1992 Europe. On the other hand, U.S. insurers often seem reluctant to begin dealing with diverse languages, exchange rates for several currencies, differing legal systems, and cultural diversity. Also, developing a reputation for reliability and competence requires time and the will to persevere in a market. The stringent demands of U.S. investors for quarterly profits sometimes tends to make such perseverance difficult for U.S. companies.[78]

U.S. companies have a very small share of the EC insurance market, not exceeding 1 or 2 percent overall. However, some U.S. companies have several decades of experience in Europe, and the pace of new entries has increased since the 1970s. For example, between 1975 and 1985, 26 U.S.-owned companies obtained authorization to transact business in the United Kingdom.[79]

The principal U.S.-based insurers operating in the European Community include the American International Group (AIG), CIGNA, Chubb, and Continental. AIG is considered by large European insurers to be a potential major EC player;[80] CIGNA

[76] Many industry sources consider this number too small.

[77] The international insurance needs of domestic multinational clients, however, have often been the incentive for U.S. insurers to begin exploring entry into foreign markets.

[78] Robert L. Carter, *Insurance: The United States and the European Community*, University of Nottingham, United Kingdom, paper delivered to the American Enterprise Institute's conference on "The United States and Europe in the 1990's," Washington, DC, Mar. 5-8, 1990.

[79] Ibid.

[80] AIG is the most prominent U.S.-based company in international insurance markets. According to the June 5, 1989, edition of *Fortune*, p. 68, AIG has 375 insurance offices in 130 countries and collects 40 percent of its premiums outside the United States.

Table 7
Sales[1] by foreign-owned insurance affilates, 1988

(Million dollars)

Country of Parent[2] *Country of Sales*	*Foreign-owned affiliates in the U.S.*	*U.S.-owned affiliates abroad*
All countries	49,292	27,822
Canada	11,321	6,415
Europe	27,541	10,137
Switzerland	4,286	(3)
European Community	22,484	(3)
Netherlands	10,386	(3)
United Kingdom	9,628	(3)
West Germany	2,029	(3)
Other	441	(3)
Other	771	(3)
Latin America[4]	311	5,157
Japan	300	4,146
Australia	613	(3)
Other Countries	9,206	(3)

[1] Sales equals premium plus investment plus other income for insurance affiliates that are 10 percent or more owned by any one foreign person.
[2] Country of ultimate beneficial owner (UBO).
[3] Not available.
[4] Includes offshore centers such as Bermuda and the Bahamas.
[5] Includes the United States as a UBO.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Foreign Direct Investment in the United States, Preliminary 1988 Estimates*, table E-4, Aug. 1990, and *U.S. Direct Investment Abroad, Preliminary 1988 Estimates*, table 7, July 1990.

Table 8
Foreign insurance affiliates[1] of nonbank U.S. parents

Item	*1983*	*1985*	*1987*	*1988[2]*
All insurance:				
Number of affiliates	621	617	631	641
Total assets (million dollars)	46,896	56,381	80,353	86,025
Sales (million dollars)[3]	16,273	17,860	26,949	27,822
Life insurance:				
Number of affiliates	88	87	86	89
Total assets (million dollars)	19,655	21,310	28,628	30,517
Sales (million dollars)	5,913	5,622	7,794	9,036
Accident and health insurance:				
Number of affiliates	34	34	39	39
Total assets (million dollars)	2,181	3,044	6,252	7,272
Sales (million dollars)[3]	856	1,046	2,119	2,570
Other insurance:				
Number of affiliates	499	496	506	513
Total assets (million dollars)	25,060	32,027	45,472	48,235
Sales (million dollars)[3]	9,503	11,192	17,037	16,216

[1] Affiliates include entities at least 10 percent owned by a U.S. person.
[2] Preliminary estimates.
[3] Sales equals premium income plus investment income plus other income.

Note.—Detail may not add to totals due to rounding.

Source: U.S. Department of Commerce, *U.S. Industrial Outlook 1991*, p. 50-3.

plays a role in some important fire insurance lines, and Chubb continues to garner business in such niche markets as executive protection, computer theft, errors and omissions, and trustee accounts. Each of these firms has been established in Europe for some years and has expanded, or is planning to expand, service to most EC member states. Other U.S. insurance companies active in one or more EC nations include Allstate, American Life, American Re, Employers Re, Federal, General Re, Hartford, Kemper, Lincoln Re, National Union of Pittsburgh, Nationwide, PanAtlantic, Prudential, Transamerica, Travelers, Unity Fire & General, and Vigilant. Recent actions, all aimed at the perceived lucrative life insurance markets of southern Europe, have included Metropolitan Life's entry into Spain, Prudential's opening operations in Italy, Connecticut Mutual Life's establishing offices in Luxembourg, and Mutual Benefit Life of New Jersey's setting up Portuguese operations.[81] Several companies note that, barring the acquisition of an established insurer already doing a large amount of business in the EC, the only effective way to enter the market is to find a niche where the company can begin to make a name for itself among brokers and consumers.[82]

Methods of organization vary among U.S. insurers who have subsidiaries and branches in Europe. AIG, for example, while retaining a London-based branch of its New York headquarters to deal with the British and Irish markets, has centralized its main European headquarter's subsidiary in Paris. Chubb also has a London-based subsidiary that operates autonomously, and another Brussels-based subsidiary has branch operations in Spain, the Netherlands and most other EC countries. CIGNA has a similar arrangement. All reflect a general trend to create at least one European subsidiary of sufficient size and financial strength to be creditable to European insurance consumers and regulators, with additional branch operations in several parts of the Community. In several instances, the creation of such a creditable company has meant transferring assets from a second or third European subsidiary or branch operation to the company's "major" European subsidiary. Other U.S. groups continue to have subsidiary or branch operations in several EC countries, but many U.S. companies offer insurance services in only one or two EC member states. This practice may change as the EC 1992 directives take effect, permitting cross-border sales to any EC member state from one EC location.

The current pattern of a relative handful of U.S. insurers operating in Europe, Japan, and elsewhere, largely in niche markets, seems likely to continue.[83] The primary reason many U.S insurers are not participating in international markets may be that the U.S. insurers have long enjoyed a large, expanding domestic market, so that relatively few companies have felt an incentive to exploit their specific advantages by trading internationally, particularly by establishing a presence abroad.[84] Other reasons may include the centralized management organization of many large U.S. insurers (e.g., resistance to granting the necessary autonomy for local executives to make on-the-spot major financial commitments), a lack of capital, and/or problems in the U.S. domestic market (e.g., California insurance referenda) that divert top management attention from seriously examining international opportunities.

U.S. Brokers in Europe

In contrast to insurance companies, the large U.S. insurance brokerage houses have already established a major EC presence, at least in the United Kingdom. In the 1970s, these houses acquired majority shares of leading firms, and thereby, direct access to the Lloyd's market. Such U.S. brokers include Marsh & McLennan (which bought C.T. Bowering), Alexander & Alexander (bought Alexander Howden), Frank B. Hall (bought Leslie & Godwin), Fred S. James (has since been taken over by the British Sedgewick group), and Johnson & Higgins (which earlier had a "special relationship" with the British firm of Willis Faber). In late 1990, Willis Faber merged with the U.S. broker Corroon & Black. Marsh & McLennan completed its takeover of the prominent West German brokerage house Gradmann & Holler in 1989.

These developments could be significant. Even though insurance brokers play a small role in several other EC national markets (e.g., they handle less than 15 percent of all German insurance business), there is a wide consensus among insurers that the EC 92 program may offer brokers some new competitive opportunities.[85] By definition, large brokers know international underwriting markets. Brokers will undoubtedly be approaching potential European corporate clients—and informing many for the first time—about the advantageous coverage and costs that might be obtained outside their home insurance market. Thus, perhaps medium and small corporate consumers will gradually begin to consider "international" coverage or at least pressure their traditional insurance company to match the offers made elsewhere. A similar phenomenon may eventually impact the individual market, perhaps starting with simple items such as term life insurance, but spreading to other types of policies. Brokers could also introduce and promote many new insurance products that do not currently exist in several EC member states. Apart from the largest insurance companies, only brokers offer the in-house research of international markets that middle-range and smaller insurers will need to depend on to help them maintain or expand their market share. In short, brokers will likely be agents of change in promoting cross-border competition as well as new insurance products. Their activity could also challenge the close relationship between insurance companies and regulators that currently exists in several EC national markets. Finally, since these U.S.-based brokerage houses know the U.S. underwriting market exceptionally well, they might offer U.S. insurers already established in the EC the opportunity for new business.[86]

In the field of reinsurance, U.S. providers have been largely content to concentrate their activities in

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[81] *Atlantic Trade Report*, Sept. 6, 1989, p. 4.

[82] U.S. insurance companies in Europe, conversations with USITC staff, Jan. 1990.

[83] A study by Arthur Anderson & Co. and Life Office Management Association (LOMA), *Insurance Industry Futures: Setting a Course for the 1990s* (Chicago and Atlanta: Arthur Anderson & Co. and LOMA), 1988, indicated that a large majority of the over 150 U.S. life/health and property/casualty companies who participated in the survey are unlikely to enter Western European markets in the next 10 years.

[84] See Carter, *Insurance: The United States and the European Community*.

[85] Insurance sources in Europe, conversations with USITC staff, 1990 and 1991.

[86] Ibid.

U.S. domestic markets. Although this is beginning to change, European companies continue to dominate both international and U.S. reinsurance markets.[87] The largest U.S. reinsurer, General Re, obtained only 5 percent of its 1987 premiums abroad, for example, as compared with 90 percent for the Swiss Reinsurance company, or about 70 percent for the largest British Reinsurer, Mercantile & General.[88] However, most of the major U.S. reinsurance companies have a presence (either branches or subsidiaries), in London, Zurich, or Brussels, reflecting the inherent international aspect of the reinsurance business.

U.S. Insurers in Japan

Immediately following World War II, some British insurers that had been in the Japanese market prior to 1938 re-entered the Japanese nonlife market. New-York based AIG also obtained a nonlife license as early as 1946, serving both the Japanese domestic market as well as U.S. military and other foreign residents. Foreign life insurers were not permitted to serve the Japanese domestic life market until about 1972. In addition to AIG, U.S. underwriters currently in Japan include Chubb, Cigna, Continental, and Travelers.

Currently, about 37 foreign insurers, including three reinsurers, operate in Japan. Of these 37 firms, 8 are from the United States. The United Kingdom, France, and Hong Kong each have 3 firms, Sweden and Switzerland have 2 firms each, and the remainder are from India, Australia, South Korea, the Philippines, and Italy.

The total foreign share of the Japanese domestic insurance market is an estimated 2.8 percent—a figure that has not changed appreciably for several years, despite huge insurance market growth within Japan.

U.S. Insurers Elsewhere

Since 1987, U.S. insurers have also entered the Korean, Taiwanese, and other growing Asian markets. Additionally, the Canadian market is closely integrated with that in the United States. More U.S. insurers are present in Canada than in any other single foreign market (except when taking the EC as a whole). Mexico is also becoming increasingly attractive. Eight U.S. insurers went to Mexico City as part of a trade development mission on insurance sponsored by the U.S. Department of Commerce in June 1990.

Foreign Direct Investment in the U.S. Insurance Market

Companies from Canada, the Netherlands, and the United Kingdom have traditionally dominated foreign direct insurance investment in the United States (table 7). Several major European insurers have had subsidiaries licensed in the U.S. market for decades, e.g., Royal and Commercial Union. Currently, however, other large foreign (mostly EC) insurance companies are increasingly entering the United States, usually through the acquisition of an existing insurer. The most prominent acquisitions since 1988 have included—

- The $970 million acquisition of the Home Insurance company by a group of investors led by Trygg-Hansa (Sweden);
- The $5.2 billion purchase of the 10th-largest U.S. property/casualty company, the Los Angeles-based Farmers Group, by B.A.T. Industries (United Kingdom-Bermuda) in 1988;
- The $740 million purchase of the Maryland Casualty Company by Zurich Insurance (Switzerland).
- The $630 million purchase of Reliance/ General Casualty by Winterthur (Switzerland) in 1990;
- The purchase of Businessmen's Assurance Co. of Kansas City by Generali (Italy) in 1990;
- The 9.6-percent equity stake ($300 million) by Dai-Ichi (Japan) in the Lincoln National company in 1990;
- The $3.1 billion sale of Fireman's Fund to Europe's largest insurer, Allianz (Germany), in 1991.

Additionally, in June 1991, France's largest privately owned insurance group, Axa-Midi, was reportedly applying to New York regulatory authorities to take a large minority stake ($1 billion) in the Equitable Life Assurance Society, a large U.S. life insurer.[89] Another French group, led by a subsidiary of the state-controlled bank Credit Lyonnaise, was reportedly considering a partial rescue ($2.7 billion) of the California-based Executive Life Insurance Co.—the enterprise that had been taken over by California insurance regulators in April 1991.[90] Finally, in November, 1991, the world's largest insurance company, Japan's Nippon Life (assets of $210 billion) signed a letter of intent to buy a small, U.S. insurer for $9 million. The U.S. company is currently an inactive 'shell', but has licenses to operate in 44 States. A spokesman for Nippon Life reportedly indicated its focus will be to sell insurance and pension products to Japanese-domiciled firms operating in the United States.[91] Figure 14 indicates the scale of insurance mergers and acquisitions in the United States from 1981 to 1990.

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[87] European companies have long dominated global reinsurance markets, largely because of the way they have viewed the role of reinsurance and because of the number of relatively small national states in Europe, all with separate insurance markets.

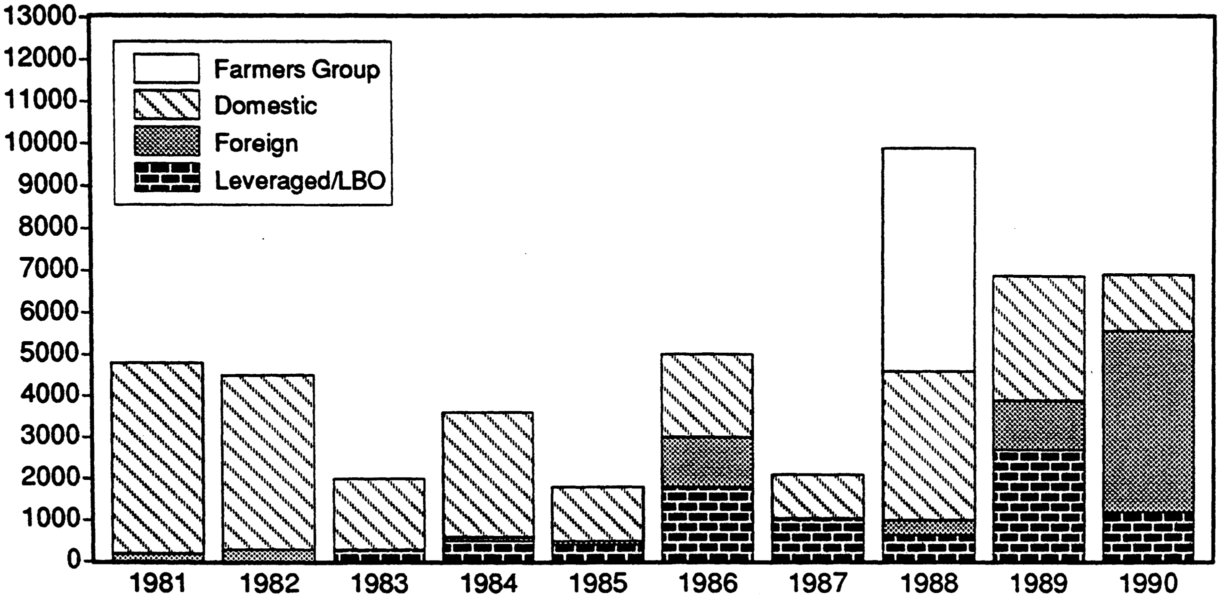
[88] Carter, *Insurance: The United States and the European Communities.*

[89] *Financial Times*, June 15/16, 1991, p. 12.

[90] *Washington Post*, Aug. 8, 1991.

[91] *The Wall Street Journal*, Nov. 14, 1991, p. A8; *The New York Times*, Nov. 14, 1991, p. D4.

Figure 14
Insurance mergers and acquisitions in the United States, 1981–90
Million dollars



Source: Wasserstein Perella & Co., New York.

The huge resources of Japanese insurers have as yet played only a minor role in U.S. direct insurance investment. For the moment, Japan's insurance industry is increasingly following its commercial investments abroad; these "direct exports" are not small. Japanese companies are taking some direct investment stakes in European insurance companies, but these stakes have also remained relatively small so far.[92] There is considerable industry expectation, however, in both the U.S. and EC markets, that this approach may change in the not-too-distant future, due to the huge capital resources of several Japanese insurers. The recent entries of Dai-Ichi and Nippon Life into the U.S. market, noted above, may be precursors of this change.

The motivation behind the increasing foreign direct investment into the U.S. insurance market includes favorable currency exchange rates and the desire for a presence in the world's largest overall insurance market, the United States. (See Appendix A.) In 1988, foreign-based companies accounted for an estimated 5.9 percent of total life insurance premiums in the United States and 13 percent of nonlife premiums. One estimate asserts that the recent acquisitions of U.S. companies by foreigners, cited above, increased the foreign nonlife share of the U.S. market from 4 percent of premiums in 1985 to 11 percent in 1989 and to 20 percent in 1991.[93] The latest U.S. Department of Commerce estimate for all lines of insurance, for calendar year 1988, states that foreign-owned companies operating in the United States received about 9.3 percent, or $40 billion, in premiums. Total sales (premiums plus investment income) totaled over $49.3 billion, up from $22 billion in 1983. (See table 9).

Nontariff Trade Barriers and Other Impediments to Trade

Overview

There are numerous nontariff restrictions on international trade in financial services, including insurance. In general terms, these restrictions include—

- State-owned monopolies for insurance and reinsurance;
- The denial of the right of establishment (i.e., foreigners are forbidden to set up offices, and thus can not do business);
- Denial of ability to own majority equity (controlling) shares in a company;

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[92] *ReActions*, Oct. 1990, p. 23.
[93] William E. Thiele, "Industry Must Be Proactive in Managing Change," *National Underwriter*, Property & Casualty ed., Mar. 25, 1991, p. 37. This estimate preceded the large French-based investments in the Equitable and Executive Life companies later in 1991.

Table 9
U.S. insurance affiliates[1] of non-U.S. parents, 1983-88

Item	*1983*	*1985*	*1987*	*1988[2]*
All insurance:				
Number of affiliates	148	147	148	154
Total assets (million dollars)	53,105	67,199	109,179	139,500
Sales (million dollars)[3]	21,875	23,942	39,260	49,292
Life insurance:				
Number of affiliates	41	43	35	37
Total assets (million dollars)	23,368	33,792	52,063	62,360
Sales (million dollars)[3]	8,828	10,452	16,842	19,902
Other insurance:				
Number of affiliates	107	104	113	117
Total assets (million dollars)	29,737	33,407	57,116	77,140
Sales (million dollars)[3]	13,047	13,490	22,418	29,390

[1] Affiliates are entities 10 percent or more owned by any one foreign person. Includes branches and subsidiaries.
[2] Preliminary estimates.
[3] Sales equals premium income plus investment income plus other income.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Foreign Direct Investment in the United States*, various issues.

- Denial of opportunities to invest insurance premiums outside a foreign country and/or restrictions on such investments even within a foreign country; and
- Denial of the repatriation of profits.

A brief survey of nontariff barriers in major global insurance markets is outlined below.[94] It is notable that since the late 1980s, liberalizing trends in global financial markets generally, including those for insurance, have increased significantly. This increase is due largely to newfound perceptions by many governments that restricted markets do not serve insurance consumers well, and that more open markets will enhance both domestic and foreign investment.

The United States

The U.S. insurance market is one of the most open in the world, and operates on the principle of "national treatment," i.e., it treats insurance companies from other nations who desire to operate in the U.S. insurance market in the same way that it treats its own. There are some anomalies, however, perhaps largely because the U.S. insurance regulatory system is so decentralized.

State-Owned Companies

One nontariff measure that some foreign nations might consider to be an obstacle to entering the U.S. insurance market is some States' refusal to license foreign government-owned companies. About 30 U.S. States prohibit the granting of a license to an insurer owned or financially controlled by a foreign government. Only 3 States specifically prohibit foreign-government ownership, while about 21 others ban the granting of a license to most types of insurers owned by any governmental entity (e.g., U.S. local or State governments or a foreign government). Among the OECD nations having large, state-owned insurance companies, France is perhaps the most prominent; publicly quoted (stock exchange) but state-owned insurers have one-third of the French market and exercise considerable influence over French insurance affairs generally. Many other nations also have government-owned insurance companies.

The apparent concerns that give rise to the state-owned prohibition in some parts of the United States include—

- Sovereign immunity may be invoked by such insurers; this could inhibit the enforcement of regulatory powers, the obtaining of records, adjudication of disputes, and the payment of claims.
- Such insurers might have access to unlimited funds through the taxing power of their government owners, and the apparent or hidden subsidization of such insurers could result in unfair competition;
- National security could be threatened if such insurers underwrote risks involving classified U.S. Federal Government projects; and
- The government owners of such insurers may exert undue influence on their

[94] More detailed country-by-country information can be obtained from the United States Trade Representative's annual publication entitled *National Trade Estimate Report on Foreign Trade Barriers* (Washington, DC: GPO).

management to the detriment of U.S. policyholders.

Another possible nontariff barrier is that foreign-based companies wishing to operate in the U.S. insurance market may not be allowed to use their global assets to determine their capacity.[95] Many States have statutes restricting insurers' claims on a given risk to an amount not exceeding 10 percent of a company's policyholders' surplus (assets less liabilities), net of reinsurance claims. Thus, in the case of alien[96] insurers, perhaps especially an insurer that is part of a wider holding company, the ability to write new insurance is usually based on the surplus held by U.S. subsidiaries in U.S. investments alone. Such restrictions are created because State insurance regulators perceive that assets located outside the United States do not represent collectable collateral against the possible failure of a company. Indeed, on these same conservative regulatory grounds, many nations have this same restriction.

Other Impediments to Trade

Some insurers, both within and outside the United States, claim that the U.S. State-by-State licensing and regulatory process is itself an impediment to trade for any company attempting to do business in more than one State.

Additionally, U.S. States establish different requirements for the residency and (sometimes) citizenship for incorporators, managers, and/or boards of directors of insurance companies and treat surplus-lines[97] insurers differently. These impediments apply to any insurer, U.S. or foreign based, that wishes to be licensed in a State other than its State of domicile. It is recognized, however, that some rules affect alien[98] companies more than foreign ones, e.g., a citizenship requirement for a manager. Given the record of substantial foreign investment in the U.S. insurance market, however, these alleged trade impediments do not appear to represent a significant deleterious effect.

Foreign Countries

European Community

In Western Europe, many previous restrictive trade practices in insurance (as they apply among EC States) have recently been abolished, or are on their way towards liberalization, because of the current EC 1992 market integration program. For example, restricting the investment of funds by insurance companies, which was a common practice in several EC nations, was abolished when the EC directive to fully liberalize capital movements took effect on July 1, 1990.[99] Non-EC insurance companies that are already incorporated in at least one EC nation are unlikely to confront new nontariff barriers. They are established as "European" companies and presumably will be treated the same way as other European-incorporated companies, i.e., national treatment. There remains a lingering concern, however, over whether insurance companies wishing to enter the EC market after December 31, 1992, will enjoy these same benefits. The uncertainty stems from the possible future interpretation of the "reciprocity" ("Third Nation") clause of EC insurance directives, which provides for national treatment and effective market access for EC companies wishing to enter foreign markets. Some U.S. Government and industry sources are concerned, for example, that current U.S. restrictions relating to the separation of insurance and banking might be judged to be a denial of effective market access for EC insurance companies wishing to enter the U.S. insurance market. Such restrictions do not exist in Europe. If such a judgment is made, U.S. insurers wishing to enter the EC market could be denied entry until an accommodation between the United States and European Community could be agreed to. U.S. and EC officials at high levels have had extensive conversations on this question, and few problems of this kind are anticipated. Since these reciprocity judgments will not be made by the EC until after January 1, 1993, however, some uncertainty remains.

Other impediments to trade in Europe include preferential tax treatment given to insurance policies issued by companies licensed only in some member states, lack of transparency in the accounting methodology for the valuation of assets of insurance companies (with the effect, for example, that no outsider can judge a company's true worth), and the special extensions of time given to many member states in meeting EC directives' requirements.

Many provisions of the directives are unlikely to be valid throughout the Community until perhaps the year 2000, which perhaps constitutes the largest impediment for EC insurance trade.

Japan

The Japanese Ministry of Finance, which regulates insurance as well as banking and securities, is in the process of overseeing a gradual loosening of regulatory controls in the nation's financial markets—a goal formally encouraged by the United States since 1984.[100] Between the end of World War II and 1972, no foreign insurance company was granted a license and permitted to operate in the Japanese domestic market. The large industrial trading companies of Japan have their own insurance companies, and the

[95] See Appendix F, "Glossary of Insurance Terms."

[96] Ibid.

[97] Ibid.

[98] Ibid.

[99] Spain, Ireland, Greece, and Portugal may maintain certain restrictions until the end of 1992, and Greece and Portugal may also have an additional 3-year extension of the time limit if they feel unable to proceed with liberalization, in particular because of balance-of-payments difficulties or insufficient adaption of their financial systems. Belgium and Luxembourg are also allowed to maintain their double exchange-rate market ("official" market and "free" market) until the end of 1992.

[100] *New York Times*, Jan. 29, 1991.

insurance regulatory system has tended historically to favor high market concentration and stability over competition and variety in terms of either insurance products or prices. It is thus unsurprising that although the Japanese market has grown tremendously in the past decade, the foreign share throughout this period has remained at an estimated 2.8 percent.

In terms of nontariff restrictive measures, the most important barrier remains the tendency of the regulatory system to reinforce the status quo and thus to favor the large, established insurers. Also, Japanese regulatory authorities tend to insist that new insurance products be made available by all companies at the same time, making it difficult for companies to establish new market niches for themselves. Given the huge size and distribution networks of established Japanese companies, it is very difficult for new foreign companies to compete.

Central and Eastern Europe[101]

Insurance trade barriers are substantial; only slight progress in trade liberalization has occurred thus far. However, events continue to rapidly evolve.

- The Soviet internal market remains the monopoly of the state-owned insurer, Gosstraakh. However, the U.S.S.R.'s state-controlled international insurance company, Ingosstrakh, began entering joint-ventures in early 1991.[102]
- East and West Germany unified in early 1991; the (formerly) East German market is now subject to the same rules as (formerly) West Germany and the European Community.
- In Czechoslovakia, Italy's Generali was reported in 1991 close to completing a joint venture agreement with the heretofore state-monopoly insurer, Ceska Statni Pojistovna.
- In Poland, the monopolies of the two state-owned insurers (one for domestic business, one for foreign) ended in 1988. Foreign companies may take majority shareholdings in new ventures, and the U.S.-based American International Group gained a license in November 1990—reportedly the first issued to a foreign insurer in over 50 years.
- In Hungary, the state insurer's monopoly was broken in 1986, and in 1989 the state companies became joint stock companies. Restrictions on foreign ownership were removed. German, Italian, Austrian, and U.S. insurers have been active in Hungary since that time.
- In Romania, the Government announced in January 1991 that the state insurer, ADAS, had been taken over by three stock companies and that a new insurance law was being drafted that would remove restrictions on insurance companies.
- In Bulgaria, the two state-owned insurance companies remain in place, but the Government claims that they must operate without state assistance. New laws are in place enabling companies to form as joint-stock enterprises, private companies, or state-owned concerns. Reportedly, commercial businesses will be able to buy insurance wherever they choose.

[101] Much of this information was obtained from *ReActions*, Feb. 1991.

[102] Examples include the Vienna-based company, Garant-Eurasco, which has German and Russian interests. Also, U.S.-based Chubb has entered an agreement to coinsure with Ingosstrakh property and casualty exposures of U.S.-Soviet joint ventures in either the U.S.S.R. or the United States. *National Underwriter*, Mar. 4, 1991.

Mexico and Latin America[103]

Mexico made extensive revisions to its insurance law in December 1989.[104] For the first time since 1935, foreign investment in the insurance sector was permitted beyond a 15-percent holding, with non-Mexican partners now permitted to take up to 49-percent minority shares in licensed Mexican insurance companies.[105] This liberalization also applies to brokers. Of the approximately 37 companies licensed in Mexico in early 1991, several now have foreign joint-venture minority partners. The further liberalization of this provision of Mexican law would almost certainly result in increased investment by foreign insurers in the Mexican insurance market. There is, for example, evidence of interest in additional U.S. investment if Mexico should permit foreign companies to obtain majority or 100 percent equity holdings or establish branches of U.S. companies.[106] Mexico's large population; increased monetary stability; expanded discretionary income of many citizens; shared border with the United States; and an

[103] The Southern Cone Common Market agreed to by Argentina, Brazil, Paraguay and Uruguay on March 26, 1991, reportedly is envisioned to work largely toward the lowering of formal tariffs. There would thus be little effect on service industries directly, other than perhaps general improvement in the foreign investment climate in those countries.

[104] Revisions to the insurance laws were separate from those decrees liberalizing foreign investment rules generally (August 1989).

[105] Only one U.S. company, AIG, is believed to have weathered the restrictions on foreign investment in the Mexican insurance market during the period 1935-90. AIG, having been present in the Mexican market prior to 1935, was "grandfathered" and thus permitted to retain a 35-percent share of its joint venture company during this time, instead of reducing it to the 15-percent limit decreed for nongrandfathered foreign companies.

[106] U.S. insurance industry officials, conversations with USITC staff, Mar. 1991.

increasing flow of goods, investment, and people across that border make it an attractive potential market for U.S. insurers. Branch operations would likely be especially popular with U.S. insurers domiciled in U.S. States bordering Mexico's frontier. Mexico also has barriers on marine insurance for insuring the movement of import and export cargoes. Mexico, the United States, and Canada began negotiations towards a North American Free Trade Agreement in mid-1991.

- In Argentina, foreign insurance providers are denied access to major segments of the insurance market. Any local business that benefits from Government spending in any way, for example, must insure with an Argentine-domiciled company. Since 1990, Argentine insurers have been permitted to increase the share ceded[107] to foreign reinsurers to 40 percent, but the state-owned reinsurer still exists.

- In Brazil, no new insurance licenses have been granted since 1966. Foreign investors may own no more than 50 percent equity and 30 percent of voting stock in an existing insurance company, insurance brokerage, or private premium fund. All reinsurance must be purchased from a Government reinsurance monopoly.

- The Chilean insurance market is now 100 percent open to foreign investment. As in many less developed countries, Chilean insurers formerly tended to be undercapitalized, not advanced technologically, and dependent on the state. The trade and investment liberalization program reportedly reduced the number of insurance companies from about 100 to less than 20.[108] The economy is, however, expanding rapidly, and Chile seeks negotiations for a free trade agreement with the United States.

- In Columbia, foreign investment is now permitted up to 100 percent of equity, as compared with the previous limit of 40 percent. The overall reform of insurance rules has led to rates being slashed by 35-40 percent.

- Peru abolished the monopoly of the state-owned reinsurer, Reaseguradora Peruana, in April, 1991.

- Venezuela is considering liberalizing the current 20-percent foreign equity investment limit.

[107] See Appendix F, "Glossary of Insurance Terms."
[108] U.S. industry sources, conversations with USITC staff, Mar. 1991.

Southeast and East Asia

U.S. trade negotiations with *Korea* and *Taiwan* in recent years resulted in more than a dozen U.S. insurers' successfully applying for licenses in these countries. In *Indonesia*, a set of regulations implemented in December 1988 reopened several insurance subsectors to foreign participation (only life insurance was previously open), but all foreign investment must be made through joint ventures with a minimum of 20 percent Indonesian ownership, and theoretically, must include a plan for a reversion to total Indonesian ownership over time. Also, foreign joint ventures must be capitalized at up to five times the level of domestic operations, thus diminishing joint ventures' return on investment and hampering their ability to enter the Indonesian market. In *Thailand*, no new licenses are being issued, but foreign investors may buy into existing firms. Available firms, however, are often in poor financial condition. The same is true for *Singapore's* domestic internal market, even though foreign investment for the entrepot offshore market is welcomed.

India

A state-owned monopoly controls all insurance. In 1990 the United States instituted a "Super 301" trade action against India in insurance, to persuade India to open its market. Action on the charge has been postponed, pending the outcome of the General Agreement on Tariffs and Trade (GATT) "Uruguay Round" global trade negotiations.

China

A state-owned monopoly, the People's Insurance Company of China (PICC) still largely controls domestic insurance, although two other domestic insurers have been authorized since 1988, and a PICC subsidiary, based in Hong Kong, writes insurance in the Guangdong Special Economic Zone. Foreign insurers and brokers are not allowed to write or place any domestic business in China, although PICC has set up joint ventures with foreign partners, mostly Hong Kong based, to service Chinese subsidiaries of foreign multinationals. This coverage is, however, limited. Paradoxically, although Chinese law and regulations require foreign multinationals operating in China to buy insurance from Chinese insurers, many foreign companies reportedly do not; they obtain their insurance needs outside China.[109] In any case, the insurance trade barriers for foreign participation within the Chinese market are formidable.

Marine Insurance

Over 60 countries are judged to have restrictions on who may insure import and export cargoes entering or leaving their countries.[110] Because marine insurance is

[109] *ReActions*, Nov. 1990, p. 46.
[110] Marine insurance trade barriers are monitored by the Freedom of Insurance Committee of the International Union of Marine Insurers, an international trade

concerned especially with transportation and communication and with goods in transit, such restrictions have special importance to the global international trading system.

The GATT Uruguay Round Trade Discussions

The GATT multilateral international trade discussions (involving 107 countries) are now tentatively expected to conclude in 1992. The negotiations include an attempt to embrace service industries, for the first time, within the GATT framework. If the attempt should prove successful, considerable progress in reducing international trade barriers in insurance may be expected, over time.

U.S. Trade Balance[111]

In addition to the important international insurance transactions effected through foreign affiliates, discussed above, there are also sizeable insurance transactions that are more akin to trade in the conventional sense of cross-border imports and exports. Such transactions would include, for example, a New York-licensed company's insuring an oil-drilling company in Saudi Arabia, which would count as an export of insurance from the United States to Saudi Arabia. Similarly, a Lloyd's of London syndicate's insuring an oil drilling platform in U.S. territorial waters of the Gulf of Mexico would count as an import of insurance from the United Kingdom to the United States.

In 1990, U.S. exports for primary[112] insurance, in terms of premiums that U.S. companies received (directly) from abroad, totaled $3.7 billion, and imports totaled $1 billion. Losses paid to cover claims were $499 million for imports and $1.5 billion for exports. For reinsurance, premium exports were $2 billion, and imports were a very large $9 billion. The overall net balance of payments for 1990, including both primary insurance and reinsurance, was $22 million (table 10).[113] This trade surplus is the second consecutive one for insurance since records detailing primary insurance transactions began to be kept in 1986.[114] It is important to note that these numbers do not reflect business done by any subsidiary or branch of U.S. insurance companies operating abroad or, conversely, business of any subsidiary or branch owned by foreign companies operating in the United States.[115] Appendix E indicates the country-by-country U.S. direct imports and exports of insurance in 1990.

110—*Continued*
association of marine insurers, whose U.S. member is the American Institute of Marine Underwriters (AIMU), New York. The AIMU claims to represent about 90 percent of all the cargo insurance issued by U.S. marine insurers. The latest list of countries judged to have marine insurance barriers is dated March 1988.

111 A trade balance refers only to imports and exports made directly into or from a nation; i.e., it excludes business done by subsidiaries and branches (affiliates) abroad.

112 See Appendix F, "Glossary of Insurance Terms."

113 No direct foreign investment, by either U.S. firms abroad, or by foreign firms in the United States is included, as such firms have become resident of the country in which their subsidiary is located.

The import and export data (Appendix E) should not be compared with the sales of affiliates abroad (tables 9 and 10). In the U.S. international transactions accounts, insurance exports are recorded as premiums received net of losses paid, and insurance imports are recorded as premiums paid net of losses recovered. In contrast, the data on sales by affiliates are not net of losses, because they are obtained from a breakdown of operating revenues, a measure that includes only premiums (and other receipts). Anthony J. Dilullo and Obie G. Whichard, "U.S. International Sales and Purchases of Services," *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis, Sept. 1990, p. 40; and Sept. 1991, pp. 66ff.

114 Statistics on international reinsurance transactions have been collected for at least 40 years.

115 DiLullo and Whichard, "U.S. International Sales and Purchases of Services," 1990, p. 54.

Table 10
U.S. exports and imports of insurance, and trade balance

(Million dollars)

Item	*1986*	*1987*	*1988*	*1989*	*1990*
Primary insurance premuims:					
Exports[1]	2,700	2,823	2,942	3,453	3,664
Imports[2]	954	1,208	1,112	1,082	1,039
Reinsurance premiums:					
Exports[1]	1,714	2,009	1,863	1,798	2,030
Imports[2]	6,263	7,330	7,482	8,854	9,085
Balance of payments for insurance net of losses	-231	-946	-1,119	692	22

[1] Premium receipts of U.S-based insurance companies from foreign insureds.
[2] Premium payments of U.S.-based insureds to foreign-based insurance companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

APPENDIX A
INSURANCE: TOTAL BUSINESS OF THE WORLD'S LARGEST INSURANCE COUNTRIES IN TERMS OF PREMIUMS IN 1989, BY CONTINENTS

Appendix A
Insurance: Total business of the world's largest insurance countries in terms of premiums in 1989, by continents

	World rank	Country	Currency	Premiums in national currency, 1989	Premiums in national currency, 1988	Real change compared with 1988	Exchange rate[1]	Equivalent in U.S.-dollars[2]	World share[2]
				Millions	Millions	Percent		Millions	Percent
North America	1	USA[3]	US-$	453,201	431,399	0.3	1.000	453,201	37.45
	7	Canada[3]	C-$	33,907	31,653	2.1	1.158	29,285	2.42
						0.4		482,486	39.87
Central and South America	27	Mexico	Pesos	6,183,931	4,536,312	13.6	2,641.000	2,342	0.19
	31	Brazil*	N. Cz.	13,900	801	25.1	11.358	1,224	0.10
	39	Venezula	Bs.	31,736	22,994	-25.1	43.079	737	0.06
	40	Colombia	Pesos	279,047	201,816	9.9	433.920	643	0.05
	43	Chile	Pesos	169,702	118,878	22.0	297.370	571	0.05
	50	Argentina*	Austr.	582,530	21,046	-12.9	1,795.000	324	0.03
	59	Panama*	Balboas	133	179	-26.1	1.000	133	0.01
	61	Uruguay	N. Pes.	103,331	55,535	3.1	805.000	129	0.01
	63	Dominican Rep.*	Pesos	728	523	-4.2	6.340	114	0.01
		Other Countries*						855	0.07
						0.7		7,072	0.58
Europe	3	West Germany[4]	DM	129,944	121,517	4.1	1.698	76,537	6.33
	4	Great Britain*	£	47,590	38,173	15.7	0.623	76,401	6.31
	5	France	FFr	365,628	316,002	11.8	5.779	63,271	5.23
	6	USSR	Rb	18,103	17,975	-1.6	0.613	29,522	2.44
	8	Italy	Lire	29,696,707	26,109,458	7.0	1,270.500	23,374	1.93
	11	Netherlands	Fl	36,392	33,505	7.4	1.916	18,999	1.57
	12	Switzerland	Sfr	24,431	22,749	4.1	1.547	15,798	1.31
	13	Spain[5]	Pta	1,445,406	1,629,114	-17.0	109.720	13,174	1.09
	14	Sweden*	SFr	73,299	58,817	17.1	6.227	11,771	0.97
	16	Austria	ASch	84,243	79,083	3.9	11.815	7,130	0.59
	17	Finland	Fmk.	28,490	24,550	8.9	4.059	7,019	0.58
	18	Belgium	BFr	250,674	234,624	3.7	35.760	7,009	0.58
	20	Denmark	DKr.	34,055	33,149	-2.0	6.608	5,153	0.43
	21	Norway	NKr.	31,909	30,094	1.4	6.615	4,824	0.40
	22	East Germany	EM	7,621	7,111	5.1	1.691	4,506	0.37
	24	Ireland	IR£	2,493	2,136	12.2	0.643	3,880	0.32
	29	Czechoslovakia	Kcs	22,664	20,094	12.8	14.290	1,586	0.13
	30	Portugal[6]	Esc	220,384	174,491	12.2	149.840	1,470	0.12
	37	Greece	Dr.	123,880	99,901	9.0	157.790	785	0.06
	44	Rumania	Lei	7,398	7,196	1.7	14.490	510	0.04
	45	Hungary	Ft.	30,047	24,392	5.1	62.543	480	0.04
	47	Turkey	TL	1,039,678	572,082	7.2	2,313.700	450	0.04
	48	Luxembourg	LFr.	11,679	10,146	11.4	35.760	327	0.03
	52	Yugoslavia	YuD	31,491,337	2,282,718	3.0	118,160.000	266	0.02
	58	Iceland[7]	IKr	9,185	7,373	3.2	61.170	150	0.01
	62	Cyrpus	CL	60	50	15.7	0.479	125	0.01
	64	Poland	Zl.	603,242	313,458	-45.2	6,500.000	92	0.01
		Other Countries*						615	0.05
						7.0		375,224	31.01

See footnotes at end of table.

Appendix A—*Continued*
Insurance: Total business of the world's largest insurance countries in terms of premiums in 1989, by continents

	World rank	Country	Currency	Premiums in national currency, 1989	Premiums in national currency, 1988	Real change compared with 1988	Exchange rate[1]	Equivalent in U.S.-dollars[2]	World share[2]
				Millions	Millions	Percent		Millions	Percent
Asia	2	Japan[8]	Yen	37,971,580	35,647,594	4.2	143.450	264,703	21.88
	9	S. Korea[8]	Won	14,504,348	11,300,929	21.4	679.600	21,343	1.76
	19	Taiwan	NT-$	160,664	129,966	18.4	26.160	6,142	0.51
	23	India[8]	Rs	66,468	52,164	20.0	17.035	3,901	0.32
	25	P.R. of China	Yuan	12,243	10,063	4.6	4.722	2,593	0.21
	26	Israel[9]	IS	4,983	4,136	0.6	1.963	2,538	0.21
	32	Malaysia*	M-$	2,923	2,406	18.2	2.703	1,082	0.09
	33	Thailand	Baht	27,267	20,603	25.6	25.690	1,061	0.09
	34	Iran[10]	Rial	67,569	47,496	16.3	70.235	962	0.08
	35	Singapore	S-$	1,672	1,382	18.1	1.894	883	0.07
	36	Philippines[11]	Pesos	17,893	14,963	8.1	22.440	798	0.07
	38	Indonesia	Rp.	1,333,248	1,166,791	7.3	1,797.000	742	0.06
	51	Pakistan	PRp.	6,867	6,336	0.5	21.420	320	0.03
		Other Countries*						3,735	0.31
						5.6		310,803	25.70
Africa	15	South Africa	Rand	23,806	20,173	2.9	2.536	9,388	0.78
	41	Algeria	Dinar	5,136	4,649	0.6	8.032	640	0.05
	42	Egypt[12]	E£	659	565	-3.8	1.100	599	0.05
	46	Marocco	D	3,821	3,287	12.7	8.122	470	0.04
	49	Zimbabwe	Z-$	741	532	23.5	2.270	326	0.03
	53	Nigeria	Naira	1,664	1,370	-13.6	7.651	217	0.02
	54	Kenya*	KSh.	4,159	3,826	-1.0	21.601	192	0.02
	55	Ivory Coast	CFAFr	53,438	51,740	2.2	289.400	184	0.02
	56	Libya	LD	50	57	-18.1	0.292	171	0.01
	57	Tunesia	TD	138	126	2.1	0.905	153	0.01
	60	Cameroon*	CFAFr	38,073	40,500	-6.0	289.400	132	0.01
		Other Countries*						730	0.06
						2.2		13,202	1.09
Oceania	10	Australia	A-$	24,563	21,608	6.2	1.262	19,472	1.61
	28	New Zealand[12]*	NZ-$	2,805	2,880	-7.8	1.675	1,676	0.14
		Other Countries*						65	0.01
						4.9		21,213	1.75
World total						3.9		1,210,000	100.00

[1] End of 1989.
[2] Rounding differences possible.
[3] Net premiums written.
[4] Excluding pension and burial funds; life insurance: excluding premiums from the reserve for bonuses to policyholders.
[5] Excluding recargo erterno.
[6] Including adicionais.
[7] Gross premiums earned.
[8] As of Mar. 31, 1989/90.
[9] Including registration and policy fees.
[10] As of Mar. 21, 1989/90.
[11] Including both private and state insurance.
[12] As of June 30, 1989/90.
* Provisional or estimated.

Source: *Sigma*, Swiss Reinsurance Co., June 1991.

APPENDIX B
WORLD'S 50 LARGEST INSURANCE COMPANIES, RANKED BY ASSETS, 1990

Appendix B
World's 50 Largest Insurance Companies, Ranked by Assets*, 1990

(In millions of U.S. dollars at Dec. 31, 1990, exchange rates; percentage change based on home currency)

Rank 1990	Rank 1989	Company (Country)	Assets	Percent change from 1989	Capital	Net income†
1	2	Nippon Life (Japan)	$182,905	16	$ 6,910	$6,286
2	1	Prudential (U.S.)	169,046	3	10,148	113
3	3	Zenkyoren (Japan)	132,307	10	2,048	259
4	4	Dai–Ichi Mutual Life (Japan)	127,527	17	5,137	4,235
5	6	Sumitomo Life (Japan)	109,198	17	4,058	3,450
6	5	Metropolitan Life (U.S.)	103,228	5	5,349	141
7	8	Allianz Group (Germany)	98,692	11	10,615	674
8	19	Union des Assurances de Paris (France)	97,876	88	15,077	820
9	7	Aetna Life & Casualty (U.S.)	89,301	3	8,210	614
10	12	Meiji Mutual Life (Japan)	74,089	22	3,127	2,441
11	9	Prudential (U.K.)	70,554	–7	12,803	215
12	11	Cigna (U.S.)	63,691	10	6,033	318
13	10	Equitable Life (U.S.)	60,523	–2	2,023	–204
14	16	Asahi Mutual Life (Japan)	58,446	17	2,433	2,111
15	18	American International Group (U.S.)	58,143	26	12,750	1,442
16	15	Nationale–Nederlanden (Netherlands)	57,055	4	6,894	537
17	14	Tokio Marine & Fire (Japan)	56,303	0	19,663	613
18	13	Travelers (U.S.)	55,356	–2	5,189	–17
19	17	New York Life (U.S.)	50,126	7	2,855	291
20	20	Teachers Insurance (U.S.)	49,894	12	2,802	228
21	23	Mitsui Mutual Life (Japan)	46,308	21	1,783	1,561
22	21	Australian Mutual (Australia)	45,808	6	6,861	N.A.
23	22	Zurich Insurance (Switzerland)	44,455	–1	5,571	303
24	26	Allstate[1] (U.S.)	39,950	17	7,127	701
25	32	Yasuda Mutual Life (Japan)	39,854	22	1,937	1,581
26	30	Norwich Union (U.K.)	39,511	5	6,337	–255
27	25	Yasuda Fire & Marine (Japan)	38,187	4	10,409	N.A.
28	24	State Farm Mutual (U.S.)	37,508	6	17,889	372
29	31	Standard Life (U.K.)	37,227	0	5,429	N.A.
30	41	Assurance Generales de France (France)	36,974	29	4,921	N.A.
31	33	Aegon (Netherlands)	35,862	4	8,080	444
32	28	John Hancock Mutual Life (U.S.)	35,332	9	1,980	224
33	27	Loews (U.S.)	34,736	7	7,754	805
34	29	American General (U.S.)	33,808	5	7,750	562
35	46	Winterthur Group (Switzerland)	33,538	14	3,611	186
36	37	Assicuranzioni Generali (Italy)	33,091	3	4,902	368
37	39	Commercial Union (U.K.)	32,813	8	3,335	43
38	49	Swiss Reinsurance[2] (Switzerland)	32,341	17	3,166	217
39	34	Transamerica (U.S.)	31,784	7	9,657	266
40	38	Legal & General (U.K.)	31,591	–6	5,338	112
41	36	Northwestern Mutual (U.S.)	31,389	10	2,083	143
42	45	Swiss Life Insurance (Switzerland)	30,808	4	825	N.A.
43	35	Royal Insurance Holdings (U.K.)	30,716	–10	4,066	–338
44	40	Principal Mutual Life (U.S.)	28,028	11	1,143	227
45	44	Nationwide Insurance (U.S.)	27,848	11	3,125	148
46	42	Lincoln National (U.S.)	27,587	10	2,794	191
47	50	Sun Life Assurance Co. of Canada (Canada)	27,517	23	2,362	194
48	43	MassMutual (U.S.)	27,507	10	1,490	101
49	47	Sun Alliance (U.K.)	27,252	–6	4,216	–205
50	48	Mitsui Marine & Fire (Japan)	26,983	5	8,427	270

[1] Subsidiary; listed for comparative purposes.
[2] 1989 figures.
* Ranked by assets as determined by Disclosure Worldscope. Figures are based on each company's 1990 fiscal-year results.
† For mutual companies, net income means net change in reserves.

Source: The above table appeared in *The Wall Street Journal,* Sept. 20, 1991, p. R8. *Reprinted with permission* of *The Wall Street Journal* © 1991, Dow Jones and Company, Inc. All rights reserved.

APPENDIX C
INSURANCE PREMIUMS AS PERCENTAGE OF GROSS DOMESTIC PRODUCT (GDP) IN 1989, BY COUNTRY

Appendix C
Insurance: Premiums as Percentage of Gross Domestic Product (GDP) in 1989, by Country

	World rank	*Country*	*Total business/ % GDP*[1]	*Non-Life business/ % GDP*	*Life business/ % GDP*
North America	6	USA	8.78	5.13	3.65
	16	Canada	5.20	2.66	2.54
Central and South America	29	Panama	2.92	1.98	0.94
	37	Chile	2.37	1.14	1.23
	38	Venezuela	2.09	1.95	0.14
	39	Argentina	2.06	1.92	0.14
	40	Uruguay	2.02	1.65	0.37
	42	Columbia	1.85	1.52	0.33
	45	Dominican Republic	1.72	1.29	0.43
	52	Mexico	1.26	0.83	0.43
	56	Brazil	1.01	0.91	0.10
Europe	1	Ireland	10.42	3.89	6.53
	5	Great Britain	9.38	3.41	5.97
	7	Switzerland	8.43	3.62	4.81
	8	Netherlands	7.67	4.05	3.62
	11	Sweden	6.00	2.44	3.56
	12	France	5.99	2.79	3.20
	13	West Germany	5.81	3.61	2.20
	14	Finland	5.75	2.05	3.70
	17	Norway	5.08	3.13	1.95
	18	Austria	5.04	3.38	1.66
	19	Denmark	4.45	2.71	1.74
	21	Belgium	4.06	2.84	1.22
	23	Luxembourg	3.95	2.79	1.16
	24	Spain	3.22	2.23	0.99
	25	Iceland	3.13	3.04	0.09
	26	Portugal	3.09	2.45	0.64
	28	Czechoslovakia	2.98	2.19	0.79
	31	Yugoslavia	2.79	2.77	0.02
	32	USSR[2]	2.78	1.19	1.59
	33	East Germany[2]	2.73	1.37	1.36
	34	Cyprus	2.67	1.44	1.23
	35	Italy	2.50	1.88	0.62
	44	Hungary	1.76	1.26	0.50
	51	Greenland	1.40	0.84	0.56
	53	Romania[2]	1.18	0.73	0.45
	61	Turkey	0.61	0.52	0.09
	63	Poland	0.51	0.42	0.09
Asia	2	South Korea	10.19	1.85	8.34
	4	Japan	9.71	2.41	7.30
	10	Israel	6.08	4.03	2.05
	20	Taiwan	4.15	1.25	2.90
	27	Singapore	3.03	1.40	1.63
	30	Malaysia	2.88	1.60	1.28
	43	Philippines	1.85	0.73	1.12
	47	Thailand	1.59	0.73	0.86
	48	India	1.50	0.49	1.01
	58	Pakistan	0.89	0.46	0.43
	59	Indonesia	0.80	0.59	0.21

Appendix C—*Continued*
Insurance: Premiums as Percentage of Gross Domestic Product (GDP) in 1989, by Country

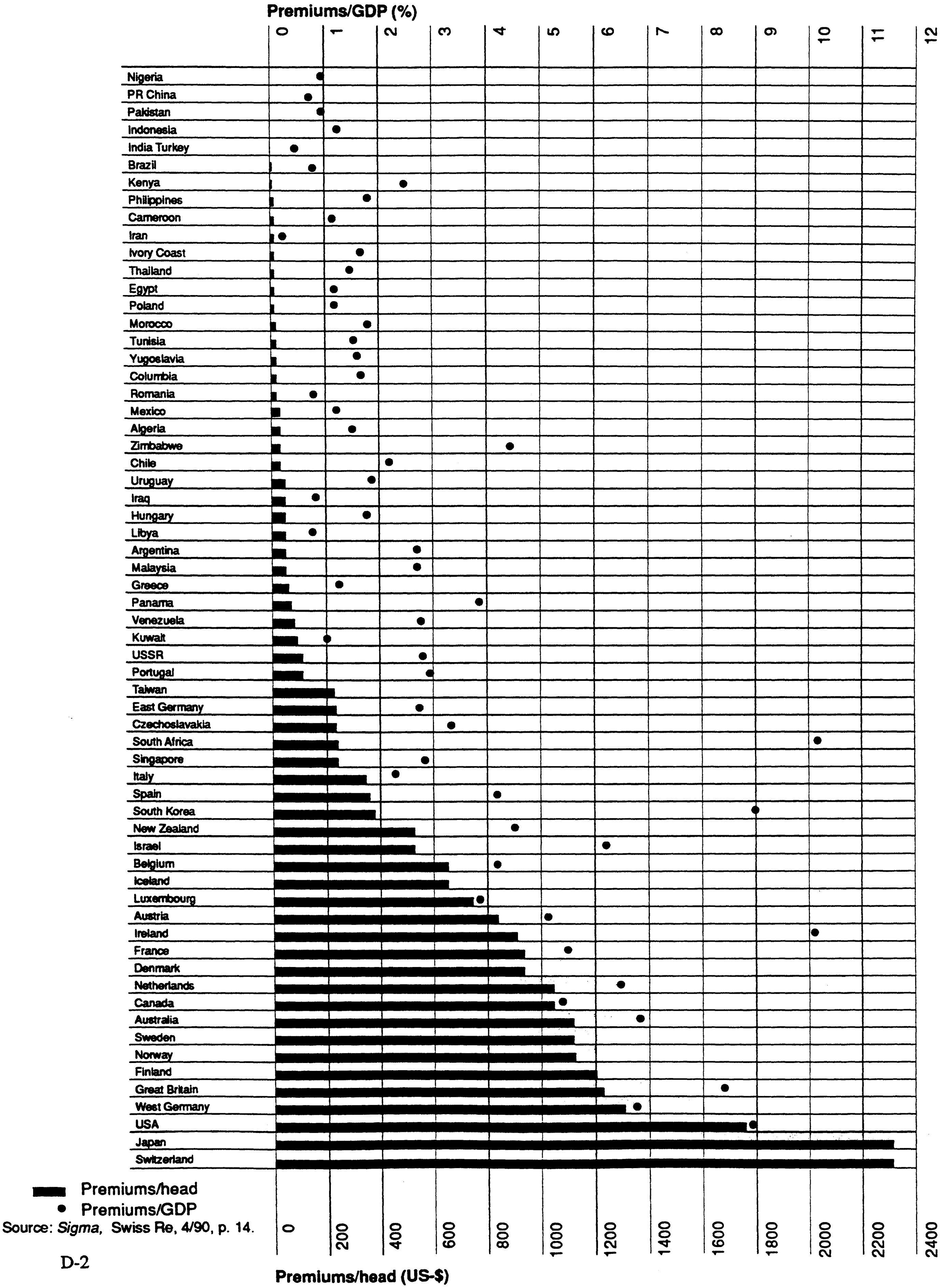
	World rank	*Country*	*Total business/ % GDP*[1]	*Non-Life business/ % GDP*	*Life business/ % GDP*
Asia—*Continued*	60	P.R. of China[3]	0.77	0.62	0.15
	64	Iran	0.34	0.29	0.05
Africa	3	South Africa	10.04	2.13	7.91
	15	Zimbabwe	5.54	1.95	3.59
	36	Kenya	2.44	1.98	0.46
	41	Morocco	2.01	1.65	0.36
	46	Ivory Coast	1.71	1.52	0.19
	49	Tunisia	1.45	1.34	0.11
	50	Algeria	1.44	1.41	0.03
	54	Nigeria	1.05	0.89	0.16
	55	Egypt	1.02	0.84	0.18
	57	Cameroon	0.93	0.78	0.15
	62	Libya	0.60	0.59	0.01
Oceania	9	Australia	6.88	3.44	3.44
	22	New Zealand	4.02	1.76	2.26

[1] See footnotes for Appendix A.
[2] In % of net material product.
[3] In % of gross material product.

Source: *Sigma*, Swiss Reinsurance Co., June 1991.

APPENDIX D
INSURANCE DENSITY AND PENETRATION IN 1988, BY COUNTRY

Appendix D
Insurance density and penetration in 1988, by country



Source: *Sigma*, Swiss Re, 4/90, p. 14.

APPENDIX E
U.S. IMPORTS AND EXPORTS OF PRIMARY INSURANCE AND REINSURANCE, 1990, BY CONTINENT AND COUNTRY

Appendix E
Insurance: U.S. imports (payments) and exports (reciepts) of primary insurance and reinsurance, 1990, by continent and country

(Millions of dollars)

	Receipts									Payments								
	Total			Primary insurance			Reinsurance			Total			Primary insurance			Reinsurance		
	Net	Premiums recieved	Losses paid	Net	Premiums received	Losses paid	Net	Premiums received	Losses paid	Net	Premiums paid	Losses recovered	Net	Premiums paid	Losses recovered	Net	Premiums paid	Losses recovered
All countries	1,832	5,694	3,862	2,119	3,664	1,544	–288	2,030	2,318	1,810	10,124	8,314	540	1,039	499	1,270	9,085	7,815
Canada	1,347	2,489	1,142	1,193	1,901	709	154	587	433	225	833	608	24	46	22	201	787	586
Europe	–418	1,077	1,495	61	171	110	–479	906	1,385	–109	4,328	4,436	324	623	299	–433	3,705	4,137
Belgium	–15	80	96	1	6	5	–16	74	90	–28	30	57	3	6	3	–31	23	54
France	–18	128	146	6	(D)	(D)	–24	(D)	(D)	–21	27	293	10	19	9	–31	253	284
Germany, Federal Republic of	–13	127	139	8	22	15	–20	104	125	–57	497	553	1	1	1	–57	495	553
Italy	(*)	70	71	10	(D)	(D)	–10	(D)	(D)	–6	41	47	(*)	(*)	(*)	–6	41	47
Netherlands	12	30	18	(*)	4	4	11	26	14	–5	17	22	0	0	0	–5	17	22
Norway	–6	11	17	1	5	4	–8	6	13	12	40	29	13	24	12	–1	16	17
Spain	–31	22	53	2	6	3	–33	17	50	–4	4	7	0	0	0	–4	4	7
Sweden	–4	19	23	2	5	3	–7	13	20	57	148	90	(*)	1	(*)	57	147	90
Switzerland	10	87	78	8	(D)	(D)	2	(D)	(D)	24	492	468	0	0	0	24	492	468
United Kingdom	–356	458	814	20	69	50	–375	389	764	–56	2,703	2,759	296	570	274	–352	2,133	2,485
Other	4	45	41	3	11	8	1	34	33	–26	84	110	(*)	1	(*)	–27	83	110
Latin America and other Western Hemisphere	134	415	281	133	186	53	1	228	227	1,528	4,366	2,838	173	332	159	1,355	4,034	2,679
South and Central America	103	263	159	122	162	40	–19	101	120	–31	30	61	3	6	3	–34	24	58
Argentina	45	61	15	46	59	13	–1	2	3	–2	(D)	(D)	0	0	0	–2	(D)	(D)
Brazil	5	9	4	6	7	1	(*)	3	3	–15	2	17	0	0	0	–15	2	17
Mexico	–19	46	65	11	12	2	–30	34	64	–3	3	5	0	0	0	–3	3	5
Venezuela	3	13	10	1	4	3	2	9	6	–2	2	4	1	2	1	–3	(*)	3
Other	69	134	65	59	80	21	10	55	44	–9	(D)	(D)	2	4	2	–11	(D)	(D)
Other Western Hemisphere	31	152	121	11	25	14	20	127	108	1,559	4,336	2,777	170	326	157	1,389	4,009	2,620
Bermuda	20	118	98	–1	4	5	20	114	93	635	2,819	2,184	148	284	136	487	2,535	2,048
Other	11	34	23	12	21	9	–1	14	14	923	1,517	593	22	42	20	902	1,474	573
Other countries	676	1,578	902	641	1,278	637	35	299	264	145	569	424	10	19	9	135	550	415
Africa	7	11	4	3	3	(*)	4	8	3	–1	3	4	0	0	0	–1	3	4
South Africa	(*)	2	1	0	0	0	(*)	2	1	–1	(*)	(*)	0	0	0	–1	(*)	(*)
Other	7	9	2	3	3	(*)	4	6	2	–1	3	4	0	0	0	–1	3	4
Middle East	10	30	20	2	7	5	8	23	15	–5	9	14	1	2	1	–6	7	13
Isreal	9	20	12	3	6	3	6	14	9	–8	3	11	0	0	0	–8	3	11
Saudi Arabia	–1	2	3	–1	(*)	(*)	(*)	2	3	(*)	(*)	(*)	0	0	0	(*)	(*)	(*)
Other	2	7	5	(*)	1	1	2	6	4	2	6	3	1	2	1	1	4	3

Appendix E—*Continued*

Insurance: U.S. Imports (payments) and exports (reciepts) of primary insurance and reinsurance, 1990, by continent and country

(Millions of dollars)

	Receipts									Payments								
	Total			Primary insurance			Reinsurance			Total			Primary insurance			Reinsurance		
	Net	Premiums recieved	Losses paid	Net	Premiums received	Losses paid	Net	Premiums received	Losses paid	Net	Premiums paid	Losses recovered	Net	Premiums paid	Losses recovered	Net	Premiums paid	Losses recovered
Asia and Pacific	659	1,537	878	636	1,268	632	23	269	246	152	557	405	9	17	8	143	540	397
Australia	–16	49	65	2	6	5	–18	43	61	23	41	18	2	4	2	21	37	16
Hong Kong	15	41	26	14	33	19	1	8	8	2	10	7	0	0	0	2	10	7
India	1	6	5	(*)	(*)	(*)	1	6	5	–1	2	3	0	0	0	–1	2	3
Indonesia	4	6	2	0	0	0	4	6	2	5	(D)	(D)	5	(D)	(D)	(*)	(*)	(*)
Japan	583	1,234	650	544	(D)	(D)	40	(D)	(D)	156	456	300	1	1	1	155	455	300
Korea, Republic of	8	20	12	6	(D)	(D)	2	(D)	(D)	–4	6	10	0	0	0	–4	6	10
Malaysia	3	13	10	5	(D)	(D)	–2	(D)	(D)	1	3	2	0	0	0	1	3	2
New Zealand	–4	6	10	(*)	(*)	(*)	–4	6	9	(*)	1	1	0	0	0	(*)	1	1
Philippines	–7	25	32	–8	(D)	(D)	1	(D)	(D)	–8	(D)	(D)	0	0	0	–8	(D)	(D)
Singapore	(*)	19	19	8	(D)	(D)	–7	(D)	(D)	–9	8	17	0	0	0	–9	8	17
Taiwan	65	96	31	63	(D)	(D)	2	(D)	(D)	–4	2	5	0	0	0	–4	2	5
Other	8	23	15	3	9	6	5	14	9	–10	13	23	(*)	(D)	(D)	–10	(D)	(D)
Unallocated	93	135	42	92	127	35	1	8	7	22	29	7	10	20	9	11	9	–2
Addenda:																		
European Communities	–417	950	1,367	49	147	98	–466	803	1,269	–175	3,601	3,777	311	597	287	–486	3,004	3,490
Eastern Europe	–1	2	2	(*)	(*)	(*)	–1	2	2	–6	(*)	6	0	0	0	–6	(*)	6

(*) Less than $500,000.
(D) Suppressed to avoid disclosure of data of individual companies.

Source: Dilullo, Anthony J., and Whichard, Obie G., "U.S. International Sales and Purchases of Services", *Survey of Current Business*, U.S. Bureau of Economic Analysis, U.S. Department of Commerce, September 1991, p. 88.

APPENDIX F
GLOSSARY OF INSURANCE TERMS

GLOSSARY OF INSURANCE TERMS

***Admitted insurer*:** An insurer licensed, registered, or authorized to do business in a particular country.

***Alien insurer*:** Insurers in the United States are classified as domestic, foreign, or alien, based on the legal domicile of their head offices. "Domestic" companies are domiciled in a given U.S. State; 'foreign' companies have their domicile in another U.S. State; and 'alien' insurers have their home offices outside the United States. However, for example, the subsidiary of an 'alien' insurer from the United Kingdom, or a 'foreign' insurer from New York, who chose to incorporate and be admitted (licensed) in Illinois, would then become an Illinois 'domestic' company.

***Annuity*:** A contract that provides a periodic income at regular intervals for a specified period of time, such as for a number of years or for life.

***Capacity*:** The amount of insurance (measured either by face value of policies or by premium) that an insurer is able or willing to issue as a maximum. Capacity may be subject to legal restrictions.

***Captive insurer*:** An insurance company established and owned by an organization, company, or group of businesses, largely to insure their own risks.

***Casualty insurance*:** Insurance concerned primarily with the insured's legal liability for injuries to others or for damage to other people's property. Casualty insurance also encompasses such forms of insurance as plate glass, burglary, robbery, and workers' compensation.

***Cede or cession*:** To pass on to another insurer (the reinsurer) all or part of the insurance written by an insurer (the ceding insurer) with the object of reducing the ultimate losses of the ceding company. The transfer of insurance from a direct (primary) insurer to a reinsurer.

***Commercial lines*:** Insurance for businesses, organizations, institutions, governmental agencies or other commercial establishments (as opposed to personal lines).

***Composite insurer*:** An insurance company that underwrites both life and nonlife insurance.

***Direct insurers*:** Insurance companies that are the primary insurers for a risk. In some cases, all or a portion of the risk is sold to another insurance company; see *Reinsurance*.

***Guaranty fund*:** An association established by State law to pay certain claims made against an insolvent insurance company.

***Insolvency*:** A state of financial condition in which an insurance company is unable to pay claims as they fall due in the usual course of business.

***Insurance*:** A system under which individuals, businesses, and other organizations or entities are guaranteed compensation for losses resulting from certain perils under specified conditions in exchange for payment of a sum of money (a premium).

***Life insurance*:** The sector of the insurance industry that covers risks on human lives. The term may also refer to policies designed for the most profitable use of capital, such as annuities, investments, and tax shelters.

***Marine insurance*:** A form of insurance primarily concerned with instruments of transportation and communication and with goods in transit. Two major subgroups are inland marine and ocean marine. Inland marine generally covers articles that may be transported from one place to another on land, as well as bridges, tunnels and other forms of transportation and communication. It includes goods in transit (generally excepting trans–ocean) as well as numerous "floater" policies such as those covering personal effects, personal property, jewelry, furs, fine arts, and others. Ocean marine provides coverage for seagoing vessels, including liabilities connected with them, and their cargoes, and sea–based oil and gas exploration and development.

Mutual company: A company legally owned by its policyholders. There are no stockholders, and policyholders have voting rights and receive dividends if the operations are profitable.

Nonadmitted insurer: An insurer that writes policies in a foreign country but is not licensed to do business in the country where the risk is being assumed. In most cases, nonadmitted insurers are given special authorization to offer types of insurance not provided by the licensed companies. In the United States, nonadmitted insurance may also involve an insurer doing business in another State in which it is not licensed.

Nonlife companies: Usually means property and casualty insurance companies. The term covers all companies other than those issuing life insurance, and may thus cover a wide variety of risks, including fire, auto, homeowners, earthquake, home mortgages, credit, surety bonds, and other insurance.

Personal lines: Those types of insurance, such as auto or home insurance, for individuals or families rather than for businesses or organizations.

Policyholder surplus: The amount by which the assets of an insurer exceed its liabilities.

Premium: The sum paid for an insurance policy. Net premiums written represent premium income retained by insurance companies, directly or through reinsurance, minus payments made for business reinsured. Direct written premiums are the amounts actually paid by the policyholders or recorded as paid.

Primary insurance: Direct, first insurance, e.g., a policy sold by an insurance company directly to a consumer (as opposed to reinsurance that takes place between insurance companies).

Reinsurance: Assumption by one insurance company of all or part of a risk undertaken by another insurance company.

Reserves: Funds set aside by insurers for future loss and loss–adjustment expense payments.

Retrocession: The transfer of reinsurance from one reinsurer to another reinsurer. This reinsurance among reinsurers often crosses national borders.

Risk: The chance of loss. Also used to refer to the insured or to property covered by a policy.

Stock company: An incorporated insurer owned by its stockholders, who supply capital for the operation and share in any profits resulting.

Surplus lines: Insurance of a risk for which there is no normal insurance market available and that is therefore provided by unlicensed insurers.

Underwriting: The process of selecting risks for insurance and determining in which amounts and on what terms the insurance company will accept the risk.

Underwriting profit or loss: The amount of money an insurance company gains or loses as a result of its underwriting operations. A net gain or loss on underwriting operations represents a company's statutory underwriting profit less (or loss plus) any amount it may pay to its policyholders in the form of dividends. The investment income of an insurance company must be added to the underwriting profit or loss to obtain a view of the company's profitability. Investment income, derived from investments of all kinds but especially from interest and dividends on stocks and bonds, comprises a significant portion of the balance sheet of an insurance company.

Workman's compensation insurance: A method of providing for the cost of medical care and payments to injured employees or to dependents of those killed while engaged in a task that is part of their employment, regardless of blame.