

Globalization of the Insurance Industry and Emerging Markets

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1. Introduction

Removal of regulatory barriers to market entry, consolidation in the insurance markets on account of increased capital and know-how requirements, partial privatization of social security schemes and general economic growth will provide insurers with new business opportunities. Experience in markets which have been liberalized for some time shows that local companies do have a chance in a globalised environment if they have sufficient capital and a clear strategic focus.

Since the beginning of the nineties, international primary insurers have been intensively expanding their activities in emerging markets. The market share of insurers who are either partly or fully foreign-owned, has tripled in Latin America and Central and Eastern Europe to 47% and 41% respectively. The average in Asia is 12%. The figure depends largely on the relevant legal framework-market entry restrictions and structure of local providers-and ranges from less than 2% in China and Russia to more than 70% in Hungary and Chile.

The high growth potential in the emerging markets is one of the major factors attracting foreign insurers: in the nineties, the growth rate in these countries was twice as high as in the industrialized countries. Overall, the emerging markets account for just 9% of global premium income from these markets, with a few having already passes the 10% mark. Further drivers of the expansion abroad are the insurers' need to follow their global industrial and service customers beyond national borders and the search for better risk diversification and economies of scale.

2. Driving forces of globalization

The insurance industry has also succumbed to the general trend towards globalised markets and risks. This general trend is evident in the fact that in recent years there has clearly been more rapid growth in global trade, direct investments and portfolio investments than in the production of goods and services. In recent years there has been a strong increase in the demand for insurance in the emerging markets. A further reason for foreign insurers to expand into emerging markets can be found in heightened competition and the ensuing pressure on costs. The process of globalization offers new opportunities for risk diversification and reducing costs.

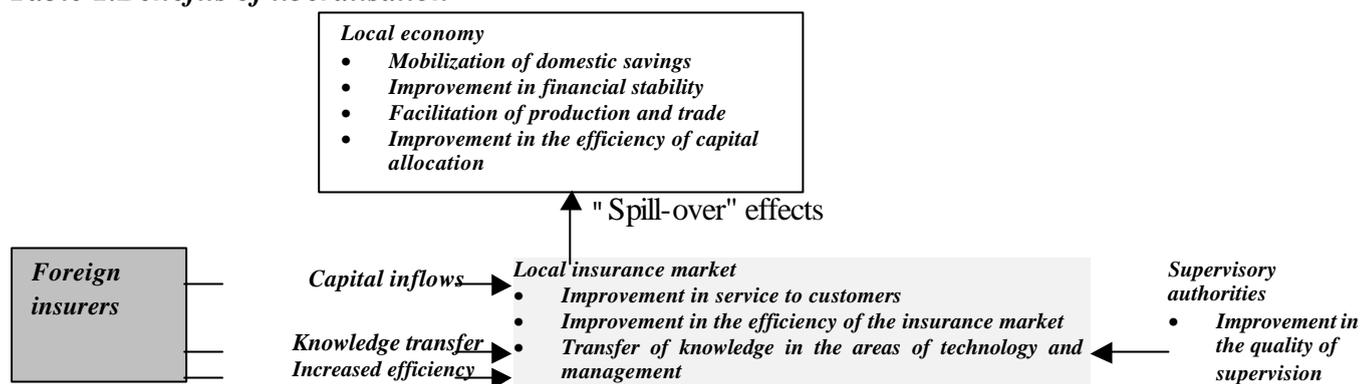
The globalization of the insurance markets was only made possible by the liberalization and deregulation of what had hitherto been a strongly protected insurance industry. In the early nineties, radical reforms were introduced in Latin America and Central and Eastern Europe. In Asian countries the liberalization process has clearly gained momentum following the Asian crisis. The process has been favored and speeded up by multilateral agreements, such as the WTO, EU and NAFTA.

3. Benefits and challenges of liberalisation in emerging markets

The benefits of liberalisation are multi-faceted. Foreign insurance companies can enhance the efficiency of the local insurance market by providing superior customer services, introducing new products and transferring technological and managerial know-how. Liberalisation increases competition and encourages a more pronounced specialisation according to comparative advantages.

From a macro-economic point of view, opening up the insurance market could help to mobilise national savings and narrow the investment gap of developing economies.

Table 1. Benefits of liberalisation



4. Conclusions and outlook

Efficient insurance markets are an essential basis for emerging markets to achieve integration into the global economy and strong economic growth. With their capacity, capital and know-how, global insurers play a key role in this process. Most Latin American, and Central and Eastern European countries began removing barriers to insurance market entry at the beginning of the nineties.

A further increase in the market share of foreign insurers can be expected in the coming years for various reasons.

- The further removal of regulatory barriers to market entry is of particular relevance to countries in Asia, as this is where the biggest restrictions are still to be found.
- In various Central and Eastern European countries, former state monopolies are to be privatized or at least partially sold to foreign investors.
- A further factor driving growth is the consolidation process in the insurance market.
- Given the privatization of parts of the social security systems such as pension, health and workers' compensation insurance new business opportunities will open up for experienced foreign insurers in Central and Eastern Europe and Latin America.

The good growth forecasts for the emerging markets should attract further foreign investment. In both the life and the non-life segments, growth rates should be considerably higher than in the mature insurance market.

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RESUME

Les marchés riches d'assurance sont une base nécessaire pour l'intégration des "emerging markets" dans l'économie globale et pour la réalisation d'un très fort développement économique. Avec leur capacité capital et know how, les entreprises multinationales d'assurance jouent dans ce processus un rôle très important.

La plupart des pays de l'Amérique du Sud et de l'Europe Centrale – Orientale, éliminent les barrières pour l'entrée à leurs marchés en '90 i me.

En Asie, la crise financière de récemment a fait ce processus de libéralisation en retard.