

## **Chapter 2**

### **Non-Life Insurance Business in Thailand and Balance of Payments**

This chapter will begin by providing a brief overview of Thailand non-life market, before moving on liberalization in trade in services. This is followed by classification of trade in insurance services by mode of supply, and discussion on trade in insurance services and balance of payments of Thailand.

The insurance business can be divided into national insurance business and international insurance business. The former is when the underwriting, sale and distribution of a particular class of business is all concentrated within one authority. Although, foreign companies can enter the market by set up operations locally and be licensed by the regulatory authorities as would any other domestic insurer, the profit remittance of their companies have small amount (except A.I.A. company). Moreover, national insurance which most of them are direct insurance is generally heavily regulated. So, direct insurance which related to the international insurance business have no data. The latter which is international insurance business is all insurance and reinsurance business that is written across national frontiers rather than for the domestic market. So, the key point of this study is Reinsurance and Retrocession business which related to international insurance business, these business will bring about the inflow and outflow of foreign currencies. Non-life reinsurance and retrocession business can be classified by lines of business into fire, automobile, miscellaneous, marine and transportation.

#### **2.1 Thailand non-life reinsurance market**

Reinsurance market of Thailand 1996 mainly scattered around Asia continent.

First, we will discuss about Thailand's market for reinsurance assumed from abroad for the year 1996 both in the market for assumed and ceded reinsurance from abroad. Insurance companies in Thailand mainly take out reinsurance policies with Asian insurance companies. For reinsurance ceded to abroad (Outward Reinsurance) , Thai insurance companies reinsured to foreign reinsurers totally in 217 companies scattered around 27 countries which first top five are Singapore, Great Britain, Hong Kong, Japan and the last Germany. For reinsurance assumed from abroad (Inward Reinsurance) , Thai insurance companies assumed reinsurance from

abroad totally in 51 companies scattered around 13 countries which first top five are Japan, Hong Kong, Malaysia, Singapore and the last Korean.

For Foreign Reinsurance Broker, Thai insurance companies reinsured by contact with foreign reinsurance broker companies totally in 33 companies scattered around 8 countries which first top three are Hong Kong, Singapore and Great Britain and the fourth are Germany and France.

As you see, the market of both Inward and Outward Reinsurance mainly scattered around Asia continent. This is a result of the growth of foreign insurance companies located more branches in Asia. In gathering data from Department of Insurance, Thai insurance companies have Outward Reinsurance business more than Inward Reinsurance business. This is the mainly cause of deficit in Insurance Business.

From the Department of Insurance data in 1995, Non-Life insurance business in Thailand had total premiums for reinsurance ceded to abroad about 9,936.53 million baht increasing from 1994 in 8.95% ( excluded Thai Reinsurance Company Limited ) which contact with 219 foreign insurance companies. The first Outward Reinsurance item was Fire reinsurance which its premiums for reinsurance ceded was 3,981.71 million baht about 40.07% of total premiums for reinsurance ceded. The second and the following were Miscellaneous reinsurance, Marine and Transportation reinsurance and the last Automobile reinsurance which their premiums for reinsurance ceded were 3,917.99, 1,351.29 and 685.54 million baht respectively.

This is the list of the top ten insurance companies that have highest premiums for reinsurance ceded to foreign reinsurance companies in 1995.

Table 2.1 : The top ten Insurance Companies that have highest premiums for reinsurance ceded to abroad in 1995.

Companies	Premiums for Reinsurance Ceded (Million of Baht)	Market share (%)
1. The Dhipaya Insurance Co.,Ltd.	1,096.68	11.04
2. Bangkok Insurance Public Co.,Ltd.	1,020.01	10.27
3. New Hampshire Insurance Co.,Ltd	961.24	9.67
4. The Deves Insurance Co.,Ltd.	651.48	6.56
5. The Sri Muang Insurance Co.,Ltd.	596.27	6.00
6. Commercial Union Assurance Co.,(Thailand) Ltd.	470.85	4.74
7. Sun Alliance Insurance(Thailand) Co.,Ltd.	329.42	3.32
8. The Samaggi Insurance Co.,Ltd.	315.64	3.18
9. South East Insurance Co.,Ltd.	295.76	2.98
10. Phatra Insurance Co.,Ltd.	280.62	2.82

Source : Department of Insurance

Moreover, the premiums for reinsurance ceded to abroad has increasing growth differently in each year which depend on the economic situation and the various of risk taking. So, the Department of Insurance has tried to encourage Thai insurance companies in increasing Inward Reinsurance in order to reduce Outward Reinsurance by pushed the risk taking to the non-life reinsurance in domestic companies.

If we considered the ratio of Outward Reinsurance and Direct Premiums, we have found that it was decreasing such as 20.53 % in 1994 and 18.73 % in 1995. In the past ten year , this ratio was about 50 %

As the part of Inward Reinsurance business in 1995, we concluded that non-life insurance companies in Thailand which have done Inward Reinsurance were total 25 companies and the premiums from reinsurance assumed was about 362.17 million baht. The major Inward Reinsurance item was Fire which had 72.36 % (about 262.07 million baht) of total premiums from reinsurance assumed. The minor Inward Reinsurance are Marine and Transportation and Miscellaneous which their premiums from reinsurance assumed were 64.84 and 35.26 million baht respectively. There was no Inward Reinsurance of Automobile.

At present, there are severe losses paid to reinsurance assumed. Therefore, if Thai insurance companies consider more carefully about risks of Inward Reinsurance, emphasizingly the catalytic areas, it would be the way to reduce the Insurance Balance of Payments Deficit.

## 2.2 Liberalization in Trade in Services

Under this topic we will concentrate on GATS and WTO which have grate impact in the both international and domestic services sector especially insurance services.

At the eighth Uruguay Round discussion launched in 1986 which was completed 7 years later, a large number of developing countries took an active role for the first time. Consequently, the result was a success as the oldest forms of discrimination. Multi - Fiber Arrangement and the exclusion of agriculture agreement out of GATT system - against developing countries were abandoned. However, in return, developing countries had to give up their opposition to the proposition of developed countries to include services in the negotiations. Furthermore, the new trade-related agreement of intellectual property rights (TRIPS) and trade-related investment measures (TRIMS) were concluded. The Uruguay Round has therefore resulted in the most comprehensive set of trade agreements in the world's history in term of multilateral trade negotiations under GATT. In addition, considering of the establishing of the World Trade Organization (WTO) under the umbrella of the United Nations, we can conclude that the Round has come out with big improvements of GATT operations. WTO is the international mechanism for resolving services trade disputes between governments.<sup>1</sup>

Interestingly, after the agreements were prolonged due to the US's national interest for so long. All these major accomplishments of the Uruguay Round were finally corresponded to the key US objectives and also the fact that the completion of the Round was dependent on the US. This highlights the point that the continued inferior concerns of the developing countries always play a role in the international trading system.

Following the success trade negotiation under the GATT banner, an agreement was reached to formulate the General Agreement on Trade in Services (GATS), an overall framework for the conducting of trade in the services among member states. This Agreement is made up of 3 important parts. The first concerns the general framework agreement and obligations which all member countries have to follow. The second part is sectorial annexes containing special stipulations related to certain types of services,

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<sup>1</sup> Naratchata Intaraprasit, "GATS and Thailand's financial liberalization," Bangkok Bank Monthly Review 36, No. 4-6 (April-June 1995) : 12.

over and above the general framework. The third section is schedules of commitments on the liberalization of their services industries which all member have obligation to submit.

Thailand, for its part, submitted a schedule of commitments to liberalize 10 areas of the services industries, namely professional businesses, communications and telecommunications, construction and engineering, wholesale and retail trade, education, services related to the environment, finance and banking, tourism, entertainments, and transportation. This schedule covers a total of 95 activities.

For insurance business, which is usually considered a part of finance and banking sector. Thailand submitted a schedule of liberalize in 6 areas as follows :<sup>2</sup>

1. life insurance services
2. non-life insurance services
3. insurance broking and agency services
4. insurance consultancy services excluding pension consulting services
5. average and loss adjustment services
6. actuarial services

It is worth nothing that, in submitting the schedule of commitments related to the insurance business, the Thai Government will use the current laws and refrain from issuing any new rules which might adversely affect Thai companies. The Government will also liberalize areas which it is surely will not greatly affected the Thai insurance business. For instance there will be no limit to the trading of insurance policies across borders which means Thais will be permitted to freely purchase insurance policies in foreign countries. In the same token, foreigners will be permitted to conduct insurance business in the country more freely. The ceiling on their percentage of shareholding in an insurance company is under consideration to be increased from the present rate of 25 per cent to 49 per cent. Foreigners who will be allowed to conduct insurance business within the country have to be senior executives and experts who receive permission from the insurance registrar, but anyway they will not receive permission to act as agents or brokers which are occupations reserved for Thai people according to the Revolutionary Council Announcement no. 281. The

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<sup>2</sup> Siriphan Kitiprawat, "The insurance business under GATT," Bangkok Bank Monthly Review 35, No.6 (June 1994) : 7-8.

Government will never at this point granting any new licence to establish an insurance company.

The impact which might cause by Liberalization in Trade in Services will be such as :

1. The increase of foreign investment will cause technology transfer, development of the human resources and employment.
2. The high competition will bring about efficiency development of the service sector in Thailand. In some degree, high competition will be directly benefit to consumer.
3. Under GATS, private sectors will have more opportunities to access to the market of other member countries.

The insurance business may be affected if the insurance business is liberalized. There may be some advantage such as technology transferring which will help reducing administration costs and enabling companies for competition. For disadvantageous aspect, there will be some capital outflow, the business may be affected if domestic companies cannot develop to compete with foreign companies and let insurance business in the hand of foreign companies which possess more capital, higher technology, better management and personnel.

### **2.3 Classification of Trade in Insurance Services by Mode of supply**

GATS classified trade in services into four modes of supply

1. Supply of services from the territory of one member into the territory of any other member. (Cross-border supply)
2. Supply of services in the territory of one member to the service consumer of any other member. (Consumption abroad)
3. Supply of services by a service supplier of one member, through commercial presence in the territory of any other member. (Commercial presence)

4. Supply of services by a service supplier of one member through the presence of natural persons in the territory of any other member. ( Presence of natural persons)

According to trade in insurance services statistics from the Annual Insurance Report of Thailand of Department of Insurance , the trade in insurance services statistics has not been divided as in the mode of supply definition under GATS. Those trade in insurance services statistics can be explained as follows:

1. The trade in insurance service statistics of foreign exchange records does not has details which classified by lines of business. The data of foreign exchange records is collected from foreign exchange transactions in premiums and claims. These data seems to be cross border supply in insurance but it is incomplete by the form of mode of supply.

2. The data from the annual insurance report of Department of Insurance statistics has been classified by each companies, especially in the ratio of Thai and foreign shareholder data. These data can be considered trade in insurance services in the form of commercial presence in insurance services. In case of the foreign insurance company or foreign insurance branches in Thailand sell and buy insurance policies , this will be the trade in insurance services as in commercial presence.

3. Non-life insurance premiums statistics has more detail about reinsurance than life insurance. Non-life insurance data has reinsurance premiums as the premiums from reinsurance assumed and premiums for reinsurance ceded and retrocession premiums which can be divided into local and abroad. These data benefits in cross border supply aspect. For life insurance, it has not been classified into local and abroad reinsurance,thus, it can not be analyzed in term of cross border supply.

4. There is no consumption abroad statistics because of no recording in insured's nationality so we can not know which countries transferred the premiums. Moreover, the local policyholders may be foreigners.

5. Only one Thai insurance branch services in Hongkong. This indicates the limitation of Thai insurance company in the global competition.



Table 2.2 : Classification of non-life insurance by mode of supply

<b>Mode of Supply</b>	<b>Non-life insurance services</b>	<b>Affect to BOP</b>
1. Cross-border supply	Outward reinsurance Inward reinsurance Foreign broker	Inflow / Outflow of insurance premiums
2. Consumption Abroad *	Aviation, Setelite Foreign broker	Inflow / Outflow of insurance premiums
3. Commercial Presence	Foreign branches	Profit remittance
4. Presence of natural persons*	Foreign broker & Personnel	Payments to the foreign personnel employed

\*There is no data.

## 2.4 Trade in Insurance Services and Balance of Payments of Thailand

In this topic the effect of those measures on the insurance business that we mentioned above are analyzed with respect to the balance of payments.

From the Liberalization measures, the supply of insurance by foreign insurers would most likely affect the balance of payments in the following ways:<sup>3</sup>

1. The import of insurance and reinsurance results first of all in a premium outflow which is normally financed through the foreign exchange market, followed in time by a countervailing inflow of claims payments. In the other hand, the export of insurance and reinsurance results first of all in premium inflow, followed in time by outflow of claims payments. The average time-lag between the two flows will vary with the type of insurance and the growth rate of the portfolio. For example, non-life reinsurance usually has a longer lag than direct non-life insurance. The longer the time-lag, or faster the growth rate of the portfolio, the smaller will be the reduction in the cost to the balance of payments in a given year provided by the inflow of claims payments.

2. When a new branch or subsidiary of foreign companies is set up in a country the balance of payments of that country is usually strengthened by a capital inflow which will make a direct contribution to foreign-exchange reserves, even though part of the capital costs, in particular the capital deposit or solvency reserves, may be financed by a transfer of financial assets already held in the receiving country by the foreign parent organization. Sometimes, however, the entry of a foreign insurer to a country's insurance market may not make such a direct contribution to its balance of payments; for example, the foreign insurer may finance the acquisition of an existing local insurance company through an exchange of shares or through local borrowing.

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<sup>3</sup>Gerard M. Dickinson and Robert L. Carter, Obstacles to the liberalization of trade in insurance (Great Britain: Harvester Wheatsheaf, 1992), pp. 85-87.

Payments to the local personnel employed by the branch of the foreign insurance company, as well as corporate taxes paid to the government, reduce any surplus available for remittance to the parent company. Once established, it is common for foreign insurance companies to let the local organization grow at a pace dictated by the local generation of funds and to limit further external capital support. Thus a typical balance of payments for a newly-established organization is characterized by an initial capital inflow; then for a number of years, earnings will be ploughed back to finance growth and to satisfy local solvency requirements. Over time this favourable balance of payments picture for the host country will be reserved as profit remittances to the parent company are made. An additional impact on the balance of payments may result from reinsurance outflows from the branch to the parent company.

In Thailand, Services and Unrequited Transfers Balance during the first half of 1996 had regularly enjoyed a surplus of about Baht 26.8 billion (compared with a surplus of Baht 21.9 billion during the same period of 1995) This is a surplus of about Baht 25.9 billion in the first quarter and only Baht 0.9 billion in the second quarter which is divided into services balance, net income and transfer.

Table 2.3 : Current Account

Unit : Billion Baht

	January - June			1996	
	1994	1995	1996	Quarter 1	Quarter 2
1. Exports	519.9	659.6	683.3	346.3	337.0
2. Imports	639.7	841.1	919.6	460.9	458.7
3. Trade Balance	-119.8	-181.5	-236.3	-114.6	-121.7
4. Services Balance	10.1	42.1	-	39.7	-
5. Current Account	-104.2	-159.6	-209.5	-88.7	-120.8

Source : Bank of Thailand

From the latest data of the Bank of Thailand. Services balance had enjoyed a surplus of about Baht 39.7 billion in the first quarter of 1996. The major surplus items in the services balance is travel which had a surplus of Baht 47.5 billion, which has been increasing about Baht 10.1 billion in the same period of 1995. While, the major deficit items are royalties and license fees, freight and insurance services. The deficit in these account rose sharply from Baht 4.3, 1.2 and 0.7 billion in 1995 to Baht 5.4, 2.0 and 1.1 billion in 1996 respectively.

Although, the services balance has still surplus, which greatly depends on travel but the deficit in royalties and license fees, freight and insurance services are expected to grow too. Without proper corrective measures, it is likely that the surplus in net services will eventually turn into a deficit, which has been the result of the current account deficit.

Table 2.4 : Services Balance

	Travel Receipts	Other Receipts	Services Balance
1989	77,182	8,654	85,836
1990	74,038	6,018	80,056
1991	73,899	-5,980	67,919
1992	66,850	5,429	72,279
1993	65,827	11,315	77,142
1994	50,357	-11,645	38,712
1995	106,065	-29,422	76,643
Quarter1/1995	37,397	-2,660	34,737
Quarter1/1996	47,518	-7,814	39,704

Source : Bank of Thailand

Table 2.5 : Receipts and Payments structure of Services Balance

	Unit : per cent				
	1988-1992 (average)	1993	1994	1995	1996 Quarter 1
<u>Services receipts</u>					
Travel	63.43	50.99	52.10	54.13	60.57
Freight	6.29	3.82	3.85	3.93	3.08
Passenger	9.19	12.34	9.89	8.23	3.41
Other Transportation	3.51	1.60	2.06	4.37	1.38
Government service	1.76	1.64	1.85	1.30	1.52
Communication services	0.66	1.25	1.78	1.34	1.03
Construction services	0.59	0.29	0.08	0.13	0.30
Royalties and license fees	0.03	0.02	0.04	0.00	0.01
Insurance services	0.38	0.50	0.47	0.67	0.36
Others	14.18	27.54	27.88	25.89	28.34
<u>Services payments</u>					
Travel	38.22	37.93	40.21	32.12	30.03
Freight	9.85	7.40	6.14	6.80	7.33
Passenger	6.84	3.82	3.80	4.41	3.80
Other Transportation	2.62	1.28	1.02	1.14	1.07
Government service	3.75	2.02	1.63	1.72	2.83
Communication services	0.39	0.89	1.48	1.03	1.39
Construction services	1.84	2.71	2.08	1.38	1.13
Royalties and license fees	5.16	5.32	4.47	5.35	7.03
Insurance services	2.60	2.03	2.19	2.18	2.03
Others	28.74	36.59	36.99	43.86	43.35

Sources : Bank of Thailand

### Conclusion

From the mention above, the role of the trade in insurance services has been more important, as we can see from the liberalization of trade in insurance. The insurance liberalization will bring about technology transferring, reducing administration costs and capital outflow. The Government should support and promote the domestic insurance companies in order to have more ability to compete with foreign companies and to reduce the insurance deficit.