CPCU SOCIETY
INSURING YOUR SUCCESS

International Insurance Quarterly

IQ

Volume 19 Number 4 January 2006

From the Chairman

by Gail B. Burns, CPCU, CIC

Gail B. Burns, CPCU, CIC, is an insurance management consultant and has been consulting for several years in the United States, Africa, the Middle East, and the Balkans. She is a past president of the CPCU Society's Maine Chapter, a recipient of the Standard Setter Award for her insurance training program in Sierra Leone, and a member of the U.S. delegation to the OECD in Paris. She has her master of science degree in insurance management from Boston University.

The year 2005 was an exciting year for me as chairman of the International Insurance Section. I was pleased to have the opportunity to chair a committee of dedicated international insurance professionals who are as interested as I am in global insurance issues, and who are willing to share their expertise with section members. The committee's hard work and dedication was recognized this past October, with a Gold Circle of Excellence at the Annual Meeting and Seminars in Atlanta.

This year will bring even more activities for the International Insurance Section Committee. Two upcoming events include a joint Europe Chapter and International Insurance Section Committee mid-year meeting in Paris in April; and a joint International Insurance Section Committee, and Regulatory & Legislative Section Committee symposium on microinsurance at the NAIC meeting in Washington, DC, in June. Additional information on both of these events will be sent electronically to International Insurance Section members, and will be posted on our web site by our new webmaster, **Frank L. Fullmer, CPCU**.

Our honorary committee member **Charles (Mike) Dower,** has scheduled several international insurance presentations at I-Day events. Several chapters around the country will benefit from Mike's expertise on international insurance issues that affect everyone. Committee member **Juan J. Buendia, CPCU,** has also shared his expertise on insurance in Mexico with several chapters. If your chapter is interested in a speaker, please contact me or one of our committee members.

I hope that you will enjoy this *IQ* . . . it has something about the past, present, and future in international insurance. Finally, I would like to thank **Iverne "Joan" Greene, CPCU, ARM, AMIM, CPIW,** for her contributions to this edition. ■

Invitation to International Insurance Section Members

The CPCU Society's Europe Chapter and International Insurance Section Committee are pleased to announce this exciting meeting that will take place in Paris:

Friday, April 7, 2006
- afternoon conference on education with keynote speaker
- cocktails with French insurance leaders

Saturday, April 8, 2006
- introductory speech by host
- outstanding Europe Chapter service ceremony
- Europe Chapter and International Insurance Section business meetings
- lunch
- educational event
- brainstorming break-out sessions
- wrap up

Sunday, April 9, 2006
- optional sightseeing

Mark your calendars and watch for more details to come in January 2006, but start working on your travel plans now! Space will be limited.

Around the World in 50 Years

by David L. Bickelhaupt, Ph.D., CPCU, CLU, ChFC, ARM

David L. Bickelhaupt, Ph.D., CPCU, CLU, ChFC, ARM, is retired from teaching insurance courses at Ohio State University. He continues writing, however, and working with various insurance organizations. The CPCU Society just recognized his membership for 50 years. He is a strong advocate of the educational value of travel. He and his wife, Lee, make their home in Columbus, Ohio, with most travel now is aimed at trying to keep up with nine grandchildren in Florida, Atlanta, Ohio, and Canada.

Have you ever heard or read about a person who said that one of his or her goals in life was "to see the world"? Somehow my fortunes have enabled me to do exactly that. Perhaps it was a hidden desire to travel and have new experiences that brought me the joy and excitement of the international world. Regardless, I'm glad it happened, and I would like to share it with you.

The past five decades have brought my wife, Lee, and I a wonderful and continuous opportunity to travel. Some experiences have been on personal and family trips, but many have come in connection with insurance meetings. For example, I have attended national and foreign meetings of the Chartered Property Casualty Underwriters (CPCU) Society for 50 years. Also, serving as a moderator for seminars of the International Insurance Society (IIS) have been very important in providing me a continuous entry into global insurance.

The 1950s—Early International Experiences

As a teenager, my international travel was very limited. Growing up in the small town of Saratoga Springs, New York made a 150-mile trip north to Montreal seem like a visit to Paris! Watching weekly newscasts at the Saturday matinee movies, I was shocked to see gruesome World War II pictures of battles in Europe and Asia. However, from them I did learn another world was out there besides the United States. It was a reversal of Columbus discovering the "new world" in America, as I discovered the new world of Europe.

David Bickelhaupt, learning to use chopsticks in Hong Kong in 1970.

College days were too busy to think much beyond the next exam, or how the summer's work was going to pay for next year's tuition and expenses. Perhaps reading in college courses about foreign countries and business whet my appetite for seeing the world.

In 1955, Lee and I did manage to make a trip to Jamaica, British West Indies, before I returned to graduate school. We visited my college roommate's parents and friends there in their tropical paradise. We drove more than 1,000 miles to see undeveloped areas from one end of the island to the other. Many things we saw are now long gone because of tourism growth. Seven-mile Negril Beach on the west coast didn't have a building in sight then. Now, hundreds of hotels are back to back there. That's a good lesson for exploring travel spots—get there before they change!

Mexico was our next exposure to the international world. We visited in-laws over a 10-year period in San Miguel de Allende, a city in the mountains about 150 miles north of Mexico City. We didn't realize how adventuresome we were in those days to drive or take rickety trains there. The year-round climate was fabulous, however. Mexicans, though often poor, were friendly. Our children were able to enjoy native markets, colorful celebrations, bathing in hot springs, different foods, and new friends. It was an authentic and lasting experience with the Spanish language, culture, beauty, and problems of a very different world.

Hong Kong Harbor Sampans, 1970.

The Perfect Combination—Teaching, Traveling, and Writing

My teaching career has never been so dull that I've been forced to look elsewhere for challenges and enjoyment. The teaching has been great—more than 30 years, mostly at Ohio State University but also at four other colleges. Students were the best part of those years, with many good feelings about helping them learn and grow. I have missed that youthful contact of the younger generations during my retirement years.

I have also always enjoyed the opportunity to meet and teach people active in the insurance business. I have been a moderator or speaker at many CPCU Society and other professional meetings, including at least 20 IIS seminars. Fortunately, my teaching and travel to these meetings were usually combined because the seminars occurred during the summer months. They became "working vacations" with international travel to and from the meetings and nearby sites as a great bonus.

The four-day IIS seminars are held once a year, with an academic institution as host and co-sponsor. Several hundred top insurance people from many countries are invited. Selected educators and executives from around the world present papers on current insurance and risk management issues. As the most unique feature of these seminars, small groups of 20 to 30 people meet for about four off-the-record discussion sessions. A moderator poses questions and involves all the participants. For many years the moderator was chosen from the academic field, but later a co-moderator from the insurance business was added.

A very special result of these early seminars was the chance to work with **John Bickley, Ph.D.,** who founded IIS in 1962 at the University of Texas, and continued the seminars for many years at the University of Alabama. I also made lasting friendships with other college insurance educators who served as moderators, such as: **John Adams, James Athearn, Kenneth Black, Davis Gregg, Robert Goshay, Mark Greene, J.D. Hammond, Robert Hedges, Al Hofflander, John Long, Robert Mehr,** and **Ed Overman, Ph.D., CPCU**. In addition, each year I met many of the 200 to 400 world business leaders who attended these seminars annually.

Grinderwald, Switzerland

I wrote several CPCU Society and other articles in the early 1960s as my global eyes opened to the expanding world. In 1965, I presented a research paper in Hamburg as part of the first international CPCU study tour. Titled "Insurance and the European Common Market: Faction, Fiction, or Fancy?," a newspaper summary of that paper led to a surprise contact from Bickelhaupt relatives near Frankfurt who had the family history back for hundreds of years! Knowing them has been one of the best of all our international experiences.

Starting in 1966 and continuing for 35 years, I wrote an annual article on world insurance highlights for the *Encyclopedia Britannica*. These reports incorporated much of what I learned each year at various international meetings. They also increased my foreign contacts and correspondence considerably.

I also taught several international business courses at O.S.U., and took one class to Europe for seven weeks in 1968. It took much extra work to arrange such a tour, but discussions with more than 40 executives in eight countries was a great way to learn first-hand about international business. Insurance companies were included, as well as other financial, industrial, and marketing companies.

Five Decades of Meetings Around the World

Starting in 1960, most of my international experiences have been in connection with insurance and risk management meetings. Where have these meetings during the past five decades taken my wife, Lee, and me? Literally, around the world! The

Continued on page 4

Around the World in 50 Years

Continued from page 3

international opportunities and friends gained in foreign countries made our world so much better!

The 1960s

Texas and the first seminar in Europe. Beginning with the three University of Texas seminars in the 1960s, I saw that the emphasis on differences in insurance among countries in the early discussion sessions often disappeared later. As more ideas were exchanged by participants, they realized that many similarities were just as crucial to the problems and solutions they were discussing! Extra events at these early seminars also were well remembered, such as the governor's reception at his fabulous mansion, and the visit to the enormous LBJ Ranch.

In London, I served as a moderator in 1967 at the first IIS meeting outside the United States. Because I had written the CPCU Society article (referred to earlier) about the European Common Market (ECM) two years before, it was a surprise to find out that there was more opposition than support for the ECM. It was a sharp lesson in the difficulties that can arise in getting countries together—even based on good ideas! Fortunately, London and its colorful history made it a good place for international insurance discussions,

Freiburg, Germany 1974

The Netherlands, 1972

particularly in the shadow of the famous Lloyd's of London.

In 1969, a successful meeting was held in Philadelphia, the city where Benjamin Franklin founded the first insurance company in the United States. It was a fitting end for the decade.

The 1970s

Full steam ahead for global meetings. The seminar site changed the next year in 1970 to Tokyo, which featured insurance company management and economic security. I wrote one of the "working papers" distributed before this meeting, "Insurance Marketing—Maxi-Style for the 1970s." The article concluded that insurance was becoming bigger every year because of four "ism" trends: internationalism, consumerism, mass merchandism, and financialism. Maxi-style insurance escalated with these trends for the next three decades.

After the seminar, Lee and I extended our trip and took one of the best group tours we've had. In the group of about 40 were several other CPCUs, including **Ken Black, CPCU, Bernie Daenzer, CPCU, Norm Sleight, CPCU,** and **Ed Overman, Ph.D., CPCU**. We went on the "bullet train" to the 1970 World's Fair in Kyoto, the famous gardens of Nara, the infamous Hiroshima, and then across the Sea of Japan by boat to bask in the famous hot springs of Beppu. Next, a plane ride to exciting Hong Kong was the perfect choice, because it is one of the most international cities in the whole world.

I gave a speech in Spain in 1972 to an Ohio insurance agents' association, also visiting coastal Marbella, pretty Ronda in the mountains, and Tangiers in Morocco.

1972–1973, saw many other new insurance issues discussed in Mexico City and Madrid. Innovative marketing strategies, management efficiency, investment opportunities, and regulatory problems were among the top topics. Severe traffic conditions were notable in both of these crowded cities, but the sightseeing of native markets and grandiose palaces was still marvelous. From Spain, we stopped in Portugal to visit friends on the way back to the United States. They took us to see old Lisbon, barbecues on lovely beaches, small fishing villages, and even brought us good luck at the casino in Cascais.

In 1974, my textbook *General Insurance* was the first to include a headlined section on the "internationalism" of insurance. The next edition included statistics and tables showing the size of insurance in various continents and countries. International insurance was beginning to appear in print!

Schilthorn, Switzerland, 1974

The Busy 1980s

The seminars were held in many exotic places during the 1980s. Can you picture Paris, Rio de Janeiro, Toronto, Singapore, New Orleans, Vienna, Seoul, and back again to London—all in one decade? Challenging insurance topics discussed at these meetings included inflation, growth strategies, video sales, financial services, and multi-national regulation.

In 1983, I coauthored with **Dr. Ran Barniv** the first book titled, *International Insurance*. It was published in New York City by the Insurance Information Institute. Its 11 chapters and 176 pages were the first comprehensive coverage of the global aspects of "managing risk in the world."

I moderated for about half of the IIS seminars during these years when global business was expanding so rapidly. A major problem arose in 1986, as unrest in Cairo caused the meetings to be shifted to Orlando. Political risk insurance was a logical topic there, as well as marketing methods, tort liability, and capacity in developing countries. In London, discussion centered on alternative risk-handling techniques and the effects of major disasters.

We had the chance to travel for two weeks before the Rio meetings, and were glad to see the highlights of Lima, Cuzco (and Machu Picchu), Iquitos (and Explororama deep in the Amazon jungle), and Buenos Aires (and the pampas). The views from hills surrounding Rio were awesome, not to mention those at the beaches of Ipanema and Copacabana!

The Retiring 1990s

Not only did the twentieth century retire with the 1990s, but I did, too. This gave Lee and I more time to travel, and we went with friends to Alaska, the Maritime Provinces in Canada, and the Venice area in Italy. I didn't retire completely from IIS, however. A rule requiring moderators to be teaching currently was dropped, and I was a moderator at the 1996 Amsterdam seminars, where attendance grew to a record 500, plus spouses. With larger discussion groups, business leaders were added as co-moderators. Lee and I extended our trip by revisiting Belgium and relatives in Germany, happy to see Europe again in the 1990s.

The New Century

We started off the twenty-first century with a cruise to the Mideast, visiting Turkey, Cyprus, Egypt, and Greece. It was our first cruise in 30 years. The 2,000-year Biblical ruins of Ephesus were very different than the modern buildings of Istanbul and Athens. In Egypt, the pyramids with their 4,000 to 5,000 years of history seemed unbelievable.

IIS seminars have had continued success under a new name, the International Insurance Society, with headquarters in New York City and a new executive director, **Patrick Kenny**. Starting in Vancouver, Canada in 2000, they have met in Vienna, Singapore, New York, London, and Hong Kong. I was lucky to attend the Singapore meeting in 2002, and had the honor of accepting the Insurance Hall of Fame award on behalf of my mentor at Ohio State, **Dr. Edison Bowers**. Singapore is a startlingly new and prosperous city.

Before the meetings, we visited a growing Bangkok and several smaller cities in Thailand as far north as the famous drug capital known as the "Golden Triangle." A week's trip after Singapore took us to China for another meeting at the university in Shanghai. Enroute there, we had a day in several small cities to the northeast, which gave us a brief look at rural China as well as the densely populated Shanghai. Then we flew to the capital city, Beijing, for two days of fast touring before heading home.

In 2003, a short trip to the Baja Peninsula in Mexico put us in a condo near San Jose with my sister and her husband. We had fun visiting the area's big, modern, and expensive hotels.

One of the best experiences in our life was in 2004. One of my former graduate students, **Dr. Kyung Lee**, and his wife, Myung, invited us to a meeting in Seoul, South Korea. We stayed in their home, and also were taken by rail and plane south to Busan to see the most famous historical sites. This industrious country is a wonderful example of how America made a successful democracy possible.

What an ending for our travels "around the world in 50 years!"

Michelstadt, Germany 1974

The Changing Face of the Japanese Non-Life Insurance Market

by Nat Pope, Ph.D., CPCU, ChFC, ARM

Nat Pope, Ph.D., CPCU, ChFC, ARM, is a professor of risk management and insurance at Bradley University in Peoria, IL. Prior to his current position, he worked in a similar capacity at the University of New South Wales in Sydney, Australia. He received his doctorate from the University of Wisconsin-Madison and has published multiple articles related to the international property and casualty markets with a specific focus on the Japanese insurance marketplace.

With its devastated economy in the wake of World War II, the Japanese bureaucracy adopted a policy of strong regulatory guidance and protectionism designed to regain economic stability as quickly as possible. Like other Japanese financial markets, the non-life insurance market enjoyed special treatment, and by 1990 had grown into an economic juggernaut recognized throughout the world. The market was characterized by a limited number of domestic insurers while foreign competitors were kept at bay by "unfriendly" regulators. This cozy relationship shared by the bureaucracy and Japanese industry came to be known as "Japan, Inc." While foreign interests cried foul and pleaded for deregulation and liberalization, little actually changed—that is, until the arrival of the 1990s.

The bursting of the Japanese real estate bubble and the ensuing economic slump revealed Japan, Inc.'s Achilles heel—the Japanese began to doubt the manner in which its leaders managed the economic affairs of the nation. Seizing upon this doubt, foreign interests heightened their calls for market change, and as a result, the Japanese non-life insurance market today presents a significantly different face than the one presented 15 years ago.

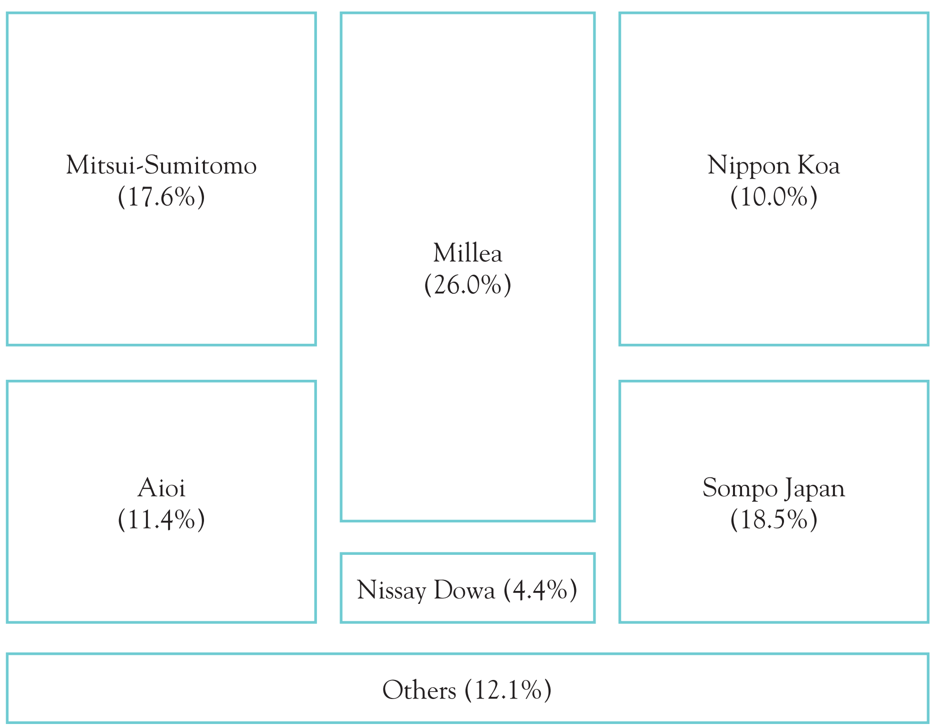
Table 1
Japanese Non-Life Insurance Market

Japanese (Foreign)	1990	2003
Number of Insurers	22 (30)	26 (22)
Market Share	97.5% (2.5%)	95.4% (4.6%)

While it is true that the total number of competitors in that marketplace has remained relatively stable (around 50) and domestic competitors still dominate market share (see Table 1), much has changed. Consider the fact that more than 50 percent of the current domestic market includes insurers, albeit small niche players, that weren't even in existence in 1990. Japanese insurers are now allowed to actually fail—a practice unheard of prior to the 1990s. Perhaps the most significant and surprising outcome, however, has been the rash of mergers and acquisitions (M&A) among the major domestic players that has resulted in a pronounced increase in market share concentration. Japan was never a market that could have been accused of being overly competitive, but recent M&A activities have left the market with six newly created "super" insurers[1] that control approximately 83 percent of the market (see Figure 1). This level of concentration borders on a "non-competitive market" designation by the U.S. Department of Justice. This increased concentration has come while foreign insurer market share continues to remain slightly below 5 percent.

What then has been the value of deregulation and liberalization in the Japanese non-life insurance marketplace?

Figure 1
Domestic Market Share (2003)



It would appear that those efforts have been embraced unevenly by the marketplace. Certainly, change has occurred, but only in terms of domestic competition. Deregulation has allowed life and non-life insurers to compete in each other's market segment, and new distribution channels are appearing with the addition of insurance brokers and the Internet. Additionally, the introduction of niche insurers is a new feature in that marketplace that may provide consumers with a broader selection of products. Liberalization efforts, however, appear to have lagged behind as foreign non-life insurers compete with the smaller domestic players for niche business. Where the foreign insurers' counterparts in the life insurance industry have been far more successful in gaining market share via M&A strategies, the bipolar character of the non-life insurance industry appears ready to withstand any similar efforts by foreign insurers to "buy their way into the market" to any meaningful degree.

While it appears that direct competition with domestic non-life insurers will continue to present foreign insurers with significant hurdles in the near term, all is not lost—foreign insurer market share is but one measurement of market penetration. As revealed in Figure 2, while the number of foreign insurers has actually decreased and the foreign market share via direct competition has held relatively steady, market share based on foreign ownership of Japanese non-life insurers[2] has increased steadily and significantly throughout the 1990s resulting in a market share of about 32 percent in 2003.

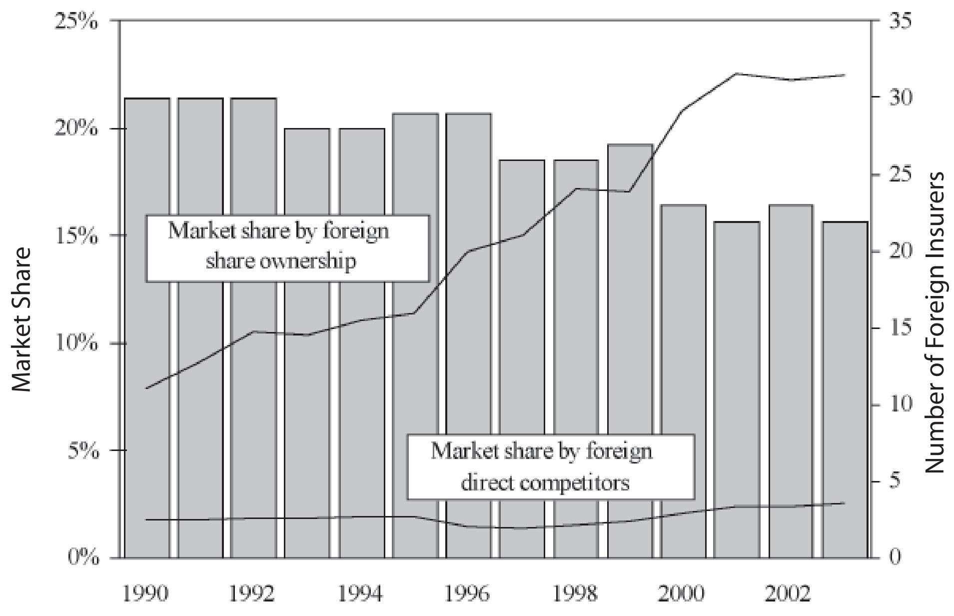
Thus, while it would appear that barriers to direct competition with domestic Japanese non-life insurers still exist, foreign interests have approached the issue at the shareholder level instead. Whether market consolidation and/or foreign shareholding will continue to increase remains to be seen. Thus far the market has proven to be unpredictable with respect to its reaction to deregulation and liberalization, but foreign interests are similarly finding alternative means by which to gain market share.

Endnotes

1. Note that Millea is actually a holding company that is comprised of Tokio Marine and Fire and Nichido Fire and Marine and, thus, those firms technically are not yet merged into a single entity.
2. Market share by foreign share ownership is determined by the percentage of a domestic Japanese insurer's stock held by foreign interests multiplied by the insurer's market share.

Figure 2

Foreign Ownership in the Japanese Non-Life Insurance Market



The CPCU Society's Japan Chapter—New Officers, Directors, Task Force Leaders

effective November 11, 2005

Officers

President: Noriyuki Miyabe, CPCU, (1993 designee) Tokio Marine Nichido Fire Insurance Co., Ltd., e-mail: NORIYUKI.MIYABE@tmnf.jp

Vice President: Hiroshi Kinoshita, CPCU, (1995 designee) InterRisk Research Institute & Consulting, Inc., e-mail: hi-kinoshita@ms-ins.com

Secretary: Satoru Shiono, CPCU, ARM , (2003 designee), Mitsui Sumitomo Insurance Co., Ltd., e-mail: s-shiono@ms-ins.com

Treasurer: Rie Hidaka, CPCU, (1997 designee) GE ERC Services Japan Co., Ltd., e-mail: Rie.Hidaka@ge.com

Three Additional Elected Directors

Hirooki Brian Jinzenji, CPCU, ARM, (1999 designee), e-mail: Jinzenji@aig.co.jp

Yoshifumi Kobayashi, CPCU, (1993 designee), e-mail: kobayashi@jikencenter.co.jp

Hidehiko Tomishima, CPCU, (2002 designee), e-mail:Tomishima@ms-ins.com

Task Force Chairmen/Committee Leaders

New Designee: Naoko Nagamine, CPCU

Information Technology/Web site: Nobuyoshi Uematsu, CPCU

Visibility: Nobuo Yoshii, CPCU

Candidate Recruitment/Development: Mariko Horikawa, CPCU

Education: Tatsuo Tomioka, CPCU, ARe, ARM

Membership: Naoki Uchino, CPCU

Research: Masayuki Yokoe, CPCU

Ethics Awareness Month: Yuji Kawauchi, CPCU

All-Industry Day (I-Day): Yasuhiro Nagai, CPCU

Immediate Past President: Keiji Fukasawa, CPCU, CLU, ChFC

Governor: Michael Steven Noble, CPCU ■

New Japan Chapter Liaison

Keiji Fukasawa, CPCU, CLU, ChFC, is the immediate past president of the Japan Chapter, and now serves as the Japan Chapter liaison for the International Insurance Section.

In 1966, he joined the insurance industry after graduating from Waseca University's commercial science school with a B.A. degree. For many years he was the regional manager for CIGNA Insurance Group's reinsurance division with responsibilities for Japanese and Korean reinsurance business. His last employer was ERC, or GE Re.

Fukasawa set up his own consulting firm in 2001, and has been involved in translating several CPCU textbooks into Japanese.

He obtained his CPCU designation in 1979 as the first Japanese CPCU designee, and obtained the CLU in 1985, and ChFC in 1992. In October 2003, the CPCU Society's Japan Chapter was established, and he was selected the first president of the Japan Chapter.

His hobbies include playing tennis every Sunday if the weather permits, and playing an occasional golf game. ■

China's Insurance Market Today

by Qixiang Sun and John W. Maxwell

- **Qixiang Sun** is associate dean and CV Starr chairman in the School of Economics, Peking University. She is also the founding director of the China Center for Insurance and Social Security Research (CCISSR). Her research focuses on both insurance policy development and business strategy in China's insurance market.
- **John W. Maxwell** is an associate professor in the Kelley School of Business, Indiana University, and adjunct professor in the School of Economics, Peking University. His research focuses on corporate environmental strategy in the context of regulatory risk.

China's insurance market is undergoing a period of rapid change. While it has great potential, it also faces a number of significant challenges. In this article, we provide a snapshot of the state of China's insurance market today, and outline the opportunities and challenges the market holds for domestic and international firms over the next eight to 10 years.

Overview

The Chinese have engaged in basic insurance practices, such as crop storage, and spreading cargo across several vessels on the Yangtze River, as early as 3,000 years ago. China's modern commercial insurance industry, established and largely controlled by foreign firms trading with China in the mid–1800s, grew into a vibrant industry by the early 1930s. From 1937 to 1949, the industry declined as China became a battleground in the World War II and entered a period of civil war from 1945 to 1949. Following the revolution of 1949, China established a central planning and the industry (which was nationalized and consolidated into the People's Insurance Company of China [PICC]) declined to a virtually nonexistent level by 1959.

China's economic reforms began in 1978. With these reforms came the restoration of the insurance industry in 1980, and a period of slow recovery, which lasted until the early 1990s. In 1992, China's government confirmed respectively its commitment to market reforms, and undertook several important reforms that not only prompted a period of rapid economic growth, but also dismantled traditional government safeguards against the risks faced by firms and individuals. In this setting, the insurance industry entered into a period of rapid expansion.

From 1992 to 2003, China's insurance industry experienced an average annual growth rate in premiums of about 30 percent. During this period, the annual premium volume on life insurance policies surpassed that of property and casualty insurance. By 2004, the total premiums of the industry stood at RMB 431.8 billion up from RMB 400 million in 1980. In what follows, we briefly describe the state of the industry, including its structure, performance, and the state of its regulatory regime today, before turning to an examination of its future.

Structure

China's insurance law established a segregated market structure in which life and non-life companies must be operated separately, although insurance holding companies are allowed to hold these different companies in the same group. For example, the PICC Group controls PICC (formerly PICC Property and Casualty), China Life, and China Reinsurance. Segregation also extends to the banking and securities sectors. China's banking laws prohibit banks from direct ownership of insurance companies and vice versa. Additionally, insurance companies, are prohibited from owning securities firms. As is often the case when laws are developed, grandfathering exceptions do exist. For example, CITIC International Financial Holdings engages in banking, securities, and insurance activities, as does Ping An insurance company.

Since 1992, the number of firms operating in the insurance market has been rising. At the end of 2003, there were 30 life, 26 non-life, five reinsurance, and two insurance asset management companies operating in China. A number of these companies are foreign-funded joint ventures or wholly owned subsidiaries of foreign insurance companies. In the next section we discuss the current regulations governing the granting of operating licenses to foreign firms and joint ventures. Although there are a large number of firms operating in the market, it is best described as a concentrated oligopoly dominated by the PICC, China Life, Ping An, and the Pacific Insurance Company

Product

Over the past 13 years, many different types of insurance products have been introduced to the Chinese market. These products include traditional, variable, participating, and universal life policies. These latter policies, as well as other innovative products that focus on low-investment risks but high returns relative to bank deposits and/or offer more flexibility than traditional policies, currently account for 58 percent of gross life insurance premiums. In addition, there has been significant growth in the sale of health insurance policies, likely driven by China's recent experiences with SARS and the general growing awareness that supplemental health insurance is desirable, in light of recent changes to China's social security system.

There has been less product innovation in the non-life market, where basic auto insurance garners the largest share of property and casualty premiums. Interestingly, the volume of premiums for property insurance has been decreasing as poorly performing state-owned enterprises, seeking to reduce expenses, have cut back on insurance. At the same time, newly established private enterprises, perhaps lacking awareness of the need for insurance, have been reluctant to purchase policies. As awareness of insurance grows, however, this sector is certain to rebound.

Continued on page 10

China's Insurance Market Today

Continued from page 9

Distribution

China has a diversified insurance sales system. Insurance can be purchased directly from the company, or from agents, brokers, banks, etc. AIA (a subsidiary of AIG) introduced commission-based exclusive agents to China in 1994 in Shanghai. This distribution method was quickly copied by domestic competitors, and by 2000, the exclusive agency model accounted for 73.9 percent of life insurance premiums collected. Recently, one form of non-exclusive agency, Bancassurance, has been enjoying rapid growth. In addition to banks, some auto dealers and post saving offices have been licensed to act as insurers' agents.

Insurance agencies are now a rapidly growing business in China. At the end of 2003, there were 506 insurance agency companies operating in China, and 207 others were preparing to start operations. Insurance broking, while starting from a smaller base, has experienced even greater rates of growth. By 2003, there were 83 insurance brokerages operating in China with another 82 preparing to enter the market.

Investment

Of critical importance to the health of any insurance market is investment management. China has experienced its share of difficulties in this area, mainly due to a lack of investment and management expertise. In the late 1980s and early 1990s, this lack of expertise led to substantial investment in non-performing assets. As a result, the 1995 *Insurance Law* put strict requirements on insurance investments, limiting investment to bank deposits, government bonds, and bank bonds. Over time, the 1995 restrictions have been gradually loosened to allow more choice in investment channels. Currently, China's insurers are allowed to additionally invest in AA corporate bonds, mutual funds, central bank notes, and stocks. Laws also restrict the composition of investments. Since 1995, the industry has pursued a conservative investment strategy with, for example, bank deposits making up the bulk of insurance investment. With the development of the insurance investment industry (investment management companies investing exclusively for insurance companies), investment strategies have gradually become more diversified.

Regulation

Another critical aspect affecting the health of any insurance industry is its regulation. The current regulatory environment of China's insurance industry is largely laid out in a series of laws including the 1995 *Insurance Law* and its 2002 amendments, the 2004 *Regulation for the Administration of Insurance Companies*, and the 2001 *Regulation for the Administration of Foreign-Funded Insurance Companies*. These laws include insurance contract law, and other professional laws governing the behavior of various aspects of the industry such as market access and regulation.

A major change in the regulation and governance of the insurance industry took place in 1998 when the People's Bank of China (PBOC) ended its role of direct administration of the industry. Up to this point the PBOC dictated many aspects of the industry such as the exact form of policies, regions in which policies could be sold, etc. The current regulator, the China Insurance Regulatory Commission (CIRC), has gradually been moving from command and control regulations toward target-based regulations. A major move in this direction came with the 2003 *Regulation on the Solvency of Insurers and Regulation Indicators*, which sets out minimum solvency margins based on factors such as retained gross premiums and combined loss payments. In addition, CIRC has loosened limitations on market access, regions of operation, policy forms, and policy rates. Policy rates and forms, however, must be filed with CIRC within seven days of the sale of new policies.

This gradual regulatory loosening has prompted an increase in the levels of both innovation and competition in the industry. Another important force driving these levels is China's 2001 entry into the World Trade Organization (WTO), which has been a driving force in further opening the market to overseas investment.

International Influences

The process of opening up China's insurance industry began well before China's entry into the WTO. In fact, the opening-up process began in the early 1980s when the central government first allowed foreign companies to establish representative offices. In 1992, the State Council chose Shanghai to be the first experimental city in which foreign insurers could operate. The opening-up process continued with more cities being opened up to foreign insurers, usually via the establishment of joint ventures with domestic firms. Upon accession to the WTO in 2001, the government made commitments designed to both broaden and deepen the opening-up process.

According to China's WTO commitments, foreign insurers and reinsurers, after successfully completing the licensing process, are allowed to establish wholly owned subsidiaries that will face no regional restrictions on their operations. Additionally, foreign insurance brokers are currently allowed to own up to 51 percent of the joint ventures they enter, and this level will rise to 100 percent in 2006.

Foreign insurance companies face few restrictions on the types of business they choose to underwrite, with three main exceptions. Presently, foreign companies are excluded from the mandatory portion of insurance for automobile third-party liability, public transport vehicle liability, and commercial vehicle driver/contract mover liability.

By the end of 2004, 17 foreign insurers (13 P&C, one life, and three reinsurers) from eight nations or regions were doing business in China via wholly owned subsidiaries, while another 20 life insurers from 12 countries or regions were partners in joint venture companies. Foreign insurers held a 1.2 percent market share of the non-life market, and 2.6 percent of the life market. Additionally, 124 foreign insurers have set up 188 representative offices in mainland China, with the hope to eventually be granted a license to do business.

To date, the foreign companies operating in China have chosen to focus on the relatively developed markets of China's large coastal cities. Thus, while market share figures are low at the national level, foreign insurers hold substantially larger market shares in these cities. For example, in Shanghai alone, foreign life and P&C insurers held approximately a 15 percent market share, based on premium income in 2004.

The mode of entry of foreign insurance companies is worthy of comment. Those companies that have chosen to enter via joint ventures have chosen large industrial firms as their partners rather than domestic insurers. These partners, such as Haier Group, Beijing Capital Airport, China National Cereals, and China Minmetals, offer attributes that make them more attractive as joint venture partners than do domestic insurers. First, by partnering with industrial firms, foreign companies will be able to exert a large degree of control over the insurance joint venture's operations. Second, the domestic partners offer strong balance sheets, a good standing with consumers, and good relations with the state. Third, reflecting the underdeveloped state of China's service sector, firms often choose to purchase policies based on connections rather than soliciting bids. Thus, by partnering with a large domestic firm, the foreign insurer will find a willing purchaser of its policies. Generali China Life joint venture is a case in point. Formed from the joint venture between Generali of Italy and China National Petroleum Company, the latter company gave all of its group policy business totaling RMB 20 billion in premiums, to the venture marking Generali China Life the fourth-largest life insurer in China at the end of 2004, surpassing AIG Shanghai Branch, which has operated in China for 12 years.

The Future: Challenges and Opportunities

The reform and opening-up process has undoubtedly improved the quality of the development of China's insurance industry. Product and service innovation has been positively impacted by the talent foreign insurers have brought to the industry. This talent has impacted many aspects of the industry, including policy research and development (requiring actuarial skills, etc.), management, marketing, and investment. The presence of foreign rivals has also had the positive benefit of spurring domestic insurers to speed internal reforms so as to compete more effectively. These reforms continue, with companies engaged in reforms that will help them not only with their marketplace tactics, but also with their ability to undertake long-term strategic changes. These include changes in ownership structure; building modern governance structures; and developing internal management systems and operating rules.

While domestic insurers have made great progress in learning from their foreign rivals and adapting to the market environment, opening up has been difficult for domestic insurers. They are young and inexperienced compared to their foreign counterparts. Largely due to the fact that domestic insurers pursued volume expansion strategies, based largely on price competition rather than on product innovation and customer service, prior to full-scale opening up they are poorly perceived by consumers and financially weak.

We now turn to an examination of the future of China's insurance industry. When looking to the future, one fact is immediately clear: China's insurance industry will experience robust growth. This growth will be driven by three main factors: general economic growth, continued economic system reforms, and demographic changes.

China's economy is expected to continue its robust growth in the coming years, with economists predicting near-term annual growth rates above 7 percent. With this growth will come increased personal income and rising purchasing power. All of these factors should fuel the demand for insurance from both industry and consumers. In addition, continued economic reforms aimed at shifting responsibility from government to individual firms and consumers will enhance insurance demand. Not only will these two groups be wealthier as a result of the reforms, but also their individual perceptions of risk will rise.

Firms will be responsible for their own investment and will face the consequences of investment risks. Individuals' perceptions of the health and life risks they face will rise because of the transformation of the nation's social security system. Once an enterprise-based pay-as-you-go system, China's social security system is being transformed into a multi-pillar system featuring individual accounts aimed at providing a minimum acceptable level of retirement funding. This system will also raise the demand for private health insurance and retirement-related investment products such as annuities. Demand will also be enhanced by the fact that China's population is aging due to its "one-child" family planning policy, which also renders the old system of youth taking full responsibility for the care of parents difficult to maintain.

Although the growth of the insurance industry is assured, several obstacles such as including immature capital markets, a lack of professional personnel, a poor image, and a lack of public good faith. China's capital markets are still substantially underdeveloped. Its stock markets for example, are plagued by massive speculative swings, making large-scale investment by insurance companies impossible.

The lack of professional talent is a problem for both domestic and foreign insurers alike, and is driven by several factors. First, in China's centrally planned economy, jobs in manufacturing and resource extraction

Continued on page 12

Continued from page 11

were highly valued, leading talented individuals to seek training in disciplines such as engineering rather than business, finance, and economics. Second, since the industry is relatively young, companies lack in-house talent. Finally, many individuals with the necessary skills to work in this industry have the perception that banking and other financial services offer the promise of a more rewarding career. Thus, while training for tertiary industries is on the rise, the insurance industry will have to fight hard for talent.

Due to the lack of managerial talent and the past pursuit of price-based volume maximization strategies over product innovation and customer service, the insurance industry has a low standing with consumers. Due to widely publicized past incidents of poor customer service, many consumers do not trust companies to provide the promised indemnity, feel that claims procedures are unnecessarily complicated, and are doubtful that policies will be honored. In addition, the perception of insurance is still low among Chinese consumers. Even in China's most financially sophisticated city, Shanghai, 73 percent of interviewees in a recent study claimed that they knew "just a little bit" about insurance, and only 2.4 percent claimed to be well-acquainted with insurance. These problems must be addressed with education and an improvement in consumer relations if the industry is to overcome this impediment.

Finally, industry growth is hampered by a lack of good faith on the part of some consumers. Consumer fraud, in the form of deliberately false claims, has hampered growth in several insurance lines including credit insurance, guarantee insurance, and even automobile insurance. For example, several P&C insurers exited the auto loan insurance market when default rates rose to as high as 30 percent, and it was found that many defaulters had the clear intention of cheating the system at the outset. In Beijing, P&C insurers have estimated that 20 percent of auto insurance payments are fraudulent in some form (including intentional damage, exaggerated claim amounts, false theft claims, etc.).

Despite the many factors hampering its growth, China's insurance industry should grow at a double-digit rate for the next eight to 10 years. The market should become more competitive as both foreign insurers and new domestic insurers enter the market, and expand into different regions. This competition should lead to a higher level of product innovation and customer service. These changes will take place gradually, as the market has an underdeveloped information-sharing structure, which will cause insurers to pursue relatively conservative growth strategies.

We expect to see a deepening cooperation between banks and insurance companies, as Bancassurance has been very well received by China's consumers, making it a major distribution channel for insurance companies. If the barriers that prevent direct ownership of insurance companies by banks persist, we would expect to see further growth in financial services holding companies, which have banking and insurance subsidiaries. Cooperation should also arise from the desire to mitigate systematic financial risks, which should lead to blended financial products such as insurance securitization. These changes, however, will likely not occur in the short term since these types of products are too sophisticated given the current level of available talent and the degree of sophistication in the financial regulatory system.

While Bancassurance will grow steadily, this will not detract from the need for brokers and knowledgeable agents. As consumers become wealthier, and their awareness of the need for insurance grows, they will seek out qualified professionals to help them with their insurance, risk management, and financial planning needs.

While almost all areas of the insurance industry will grow, the growth rate will be non-uniform. We expect a significant rise in the demand for health and pension insurance, as the government continues to reduce its role in these areas. We believe that foreign heath and pension insurers will be welcomed as a source of much needed capital and expertise. Significant problems of moral hazard and adverse selection exist in this area, and domestic insurers have much to learn from their foreign counterparts. Managed care plans are likely to be an area of significant growth in the next five to eight years.

On the property and casualty side, motor vehicle insurance will continue to dominate the market. China is experiencing very rapid growth in private vehicle ownership, which, along with legislation requiring liability insurance, will continue to drive demand for this insurance. General liability insurance, construction project insurance, and enterprise and family property insurance should all experience solid growth as the economy continues to expand, and private property becomes well-defined.

China's insurance industry has experienced tremendous growth since its resumption in 1980, but it is still relatively small and concentrated by international standards. China's entry into the WTO has opened a new era for its insurance industry in which young and relatively inexperienced insurers must compete against well-established foreign counterparts.
While the larger domestic insurers will undoubtedly lose market share, there are ample opportunities in the market for all companies to experience growth. The main challenge for domestic insurers will be to reform their management systems to focus on customer service and product innovation, while foreign insurers face the challenges of understanding and adapting to local conditions in terms of both product offerings and business conduct. The main beneficiaries will be consumers, skilled insurance professionals, and those firms that can adapt themselves best to the Chinese market. ■

New International Insurance Section Committee Members

Michael M. Barth, Ph.D., CPCU, AU

Michael M. Barth, Ph.D., CPCU, AU, is an associate professor of finance at Georgia Southern University, and the acting chairman of the department of finance and quantitative analysis. He completed a Ph.D. in risk management and insurance from Georgia State University in 1993. Prior to his move to academia, he was a senior research associate at the National Association of Insurance Commissioners where he specialized in research and testing of the NAIC's risk-based capital models and other solvency monitoring systems. He has been assistant director of curriculum at the American Institute for CPCU, Insurance Institute of America, and an auto insurance product manager. He earned the CPCU designation in 1989 and the AU designation in 1993.

Ellen R. Yamshon, Esq., CPCU

Ellen R. Yamshon, Esq., CPCU, has held property/casualty and life insurance agents and brokers licenses, served as a claims supervisor, and managed a general agency. She holds the premier designation of the property casualty insurance industry, the Chartered Property Casualty Underwriter (CPCU). She considers her coursework for CPCU the single most valuable learning experience of her life. Yamshon is an attorney/mediator, and has lectured on conflict management and negotiation in the College of Business Administration, California State University, Sacramento. She is also on the National Panel of Arbitrators for the American Arbitration Association. In 2004, she was a Fulbright Scholar in Rwanda, East Africa.

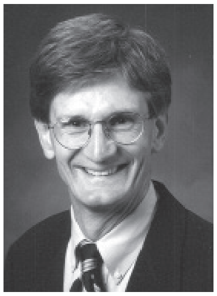
Yamshon is an accomplished author and editor. She writes primarily non-fiction on topics including insurance, legal ethics, and alternative dispute resolution. Her writing has been published in several CPCU Society publications, *Understanding the Law*, a popular college textbook on the law, and the *Harvard Negotiation Law Review*, to name a few.

Frank L. Fullmer, CPCU

(New Webmaster)

Frank L. Fullmer, CPCU, graduated from the University of Utah in 1991 and began his insurance career that year with State Farm Insurance, where he worked in automobile claims for six years handling personal injury protection, property damage, and bodily injury claims. Currently, Fullmer holds the position of claim automation and procedures specialist supporting the auto and fire companies of State Farm Insurance in the Salt Lake Operations Center. He is also president of the Gateway Toastmasters Club, and vice president of the State Farm Employee Association. Fullmer has also held the position of secretary and finance officer for the CPCU Society's Utah Chapter. While working toward his CPCU designation, Fullmer was also successful in earning his A+ certification. His interests include road biking, mountain biking, hiking, swimming, travel, and camping in the deserts of southern Utah.

Douglas K. Adams, CPCU



Douglas K. Adams, CPCU, is president of Adams and Son, Inc., which is an insurance agency licensed in 40 states in the United States, and has dealings in Canada, the Caribbean, the Far East, England, and Europe. Its international activities have been conducted and continuous since the late-1940s. He joined Adams and Son, Inc. in 1987 as the fourth generation in his agency. In 1978, Adams began his career in the insurance industry with Liberty Mutual Insurance Company and later held positions with Home Insurance and Chubb Group. He has also served on several committees as well as boards, including: ACORD's national standards board member; chairman of the technology committee for the Council of Agents and Brokers; and vice president of the Columbian Foundation. Adams is very active in his community by volunteering for a local ambulance company as a N.Y State licensed EMT, serving on the board of directors of the Central Adirondack Search & Rescue team, "SR" National Ski Patrol volunteer, and as treasurer of the Skaneateles Recreational Trust.

Roseanne Iacobucci, ARe

(Honorary Member)

Roseanne Iacobucci, ARe, is a director in St. Paul Travelers' Global Underwriting division. Her previous international insurance experience includes underwriting and finance positions with CitiInsurance (Citigroup's International Insurance subsidiary) and Travelers International Business Services division. She is actively pursuing her CPCU designation. Iacobucci may be contacted at (860) 954-4541 or at roseanne.iacobucci@spt.com. ■

The Korean Insurance Market

by Tae Yol Lee, Ph.D.

Tae Yol Lee, Ph.D., is a research fellow in the Insurance Research Center at the Korea Insurance Development Institute in Seoul, Korea, and a member of the Korean Delegation to the OECD in Paris. He received his Ph.D. in economics from Iowa State University and can be contacted via phone at 82-2-368-4177 or by fax at: 82-2-368-4044.

Despite an unfavorable environment, domestic recession, and a low interest rate, in FY2004, the Korean insurance industry recorded an impressive growth rate of 7.2 percent—8.6 percent for non-life, and 6.7 percent for life. It has been the highest since 11.0 percent in FY2000.

There are 21 companies in non-life, and 22 in life. Large insurers are very dominant in both markets. The top four non-life insurance companies claimed 71.0 percent of the total direct premiums written, and the top three life insurers did 68.5 percent.

According to Sigma of Swiss Re, the total premium volume of the Korean insurance market in 2004 reached $68.6 billion, and placed eighth in the world. The insurance density or premiums per capita reached $1,419, almost three times the world average of $512.

Variable insurance, pension, and health insurance led market growth, thanks to a bullish stock market performance with abundant liquidity and the world's fastest aging population. In the case of life insurance, more than half of the premium growth came from variable insurance.

Similar to non-life insurance, long-term insurance covering health and accident took the role of growth engine. In FY2004, its share in terms of the direct premiums written of non-life was almost half, 46.8 percent, followed by automobile, 36.7 percent. Taking into consideration the fact that the aging population is a structural issue, demand for long-term insurance will increase consistently in the long run.

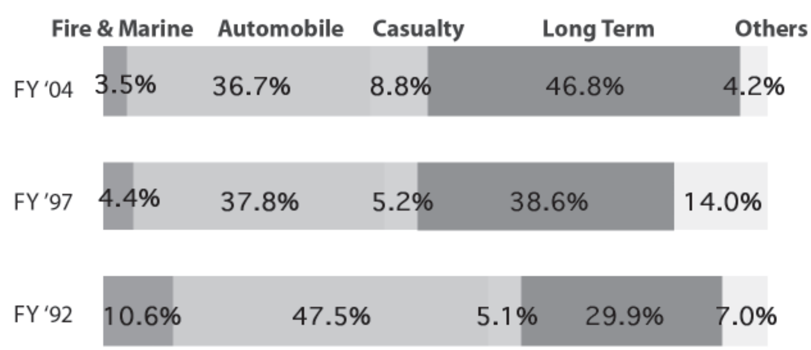
However, automobile insurance has experienced a very different situation. The market is saturated and under severe price competition due to a slump in the automobile sales market and introduction of online sales. This new marketing channel took more than 7 percent of the market in just four years. Large insurers have been successful to defend their market with their brand power, but small- and medium-sized insurers have been crowded out, as online sales have grown.

Fire and marine recorded negative growth rates, –7.1 percent and –3.3 percent. These are due to a sluggish business cycle and a soft reinsurance market. However, casualty insurance has sustained sound growth, 12.3 percent, relying on machinery and accident insurance. With long-term insurance, casualty is recognized as a major force to lead the non-life insurance market.

The earned-incurred loss ratio and expense ratio for non-life insurance recorded 77.7 percent and 23.1 percent in FY2004 so that the total combined ratio was 100.8 percent. Therefore, the net balance of investment became the major source of the profit, which was 1,139 billion won.

Moreover, Korea's insurance industry is standing at the center of dramatic changes and innovation. The barrier between non-life and life in health insurance is getting lower. The consistent expansion of online sales will stimulate stronger price competition. Retirement pension will be introduced in December 2005. The cross sales between non-life and life will be allowed in 2006. Bancassurance will be introduced to automobile insurance in 2008. Accordingly, insurers in the Korean market will face not only new opportunities but also new challenges at the same time. ■

Figure 1
Direct Premiums Trends by Line (Non-Life)



Source: *Insurance Statistics Yearbook*, KIDI, p. 289.

Table 1
Direct Premiums Written By Line (Non-Life)

(Units: billion won, %)

Classification	FY '00	FY '01	FY '02	FY '03	FY '04
Fire	275	304	322	316	294
	(1.6)	(1.6)	(1.6)	(1.5)	(1.3)
Marine	434	529	561	524	507
	(2.6)	(2.8)	(2.7)	(2.5)	(2.2)
Automobile	6,498	7,460	7,914	7,961	8,521
	(38.5)	(39.9)	(38.4)	(37.2)	(36.7)
Guarantee	602	716	936	942	902
	(3.6)	(3.8)	(4.5)	(4.4)	(3.9)
Casualty	1,114	1,388	1,689	1,850	2,036
	(6.6)	(7.5)	(8.2)	(8.5)	(8.8)
Title	–	–	2.1	1.4	2.2
	–	–	(0.0)	(0.0)	(0.0)
Overseas Direct	–	–	56.4	62.8	79.6
	–	–	(0.3)	(0.3)	(0.3)
Long Term	6,939	7,288	8,013	8,579	9,635
	(41.2)	(39.0)	(38.9)	(40.1)	(41.5)
Private Annuity	616	668	679	687	680
	(3.7)	(3.6)	(3.3)	(3.2)	(2.9)
Retirement	363	287	440	495	680
	(2.2)	(1.5)	(2.1)	(2.4)	(2.4)
Total	16,862	18,696	20,613	20,887	20,887
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Figures in parentheses indicate percentage shares.

Total includes the risk premium and loading of retirement and accompanying business.

Long-term insurance consists of long term, private annuity, and retirement in the table.

Source: *Insurance Statistics Yearbook*, KIDI, p. 289.

Into the Unknown—Or Is It?

by Douglas Shillito, FCII

Douglas Shillito, FCII, has spent his entire career in insurance. He carried out a number of management roles with Royal Insurance for more than 20 years, is a past chairman of the Chartered Insurance Institute's Society of Fellows, and a past vice president of the Institute.

He is the managing director of Shillito Market Intelligence Limited (SMIL), which he formed in 1981. He can be contacted through his web site at www.shillito.org.uk.

Outsourcing and offshoring in the insurance markets have made news headlines for some years now and remain contentious. They need to be put in the context of not just aiming for lower margins as markets become more competitive, but also the changes taking place in information technology and communications.

The Impact of the Internet

There are now very few areas in the world that one would regard as remote because of access to the Internet. The bursting of the Internet bubble a few years ago has not constrained its growth and ubiquity—the consumer continues to use it with increasing enthusiasm, whereas the traditional insurance markets are also beginning to accept that it will impact all aspects of their operations.

Improvements in communication and subsequent integration of information will bring about an evolution in the way that insurers and intermediaries go about their business. Distribution channels will diversify, and process chains will be reduced. There will be a growth in self-service as insurers' legacy systems and surrounding technology are increasingly shared by all those involved in the process, aiming for the Holy Grail of single entry and secure sharing of information.

This evolution will have a key impact on what and how insurers offshore, outsource, and even insource. Closer relationships with a number of working partners are inevitable as insurers focus on their core competencies, aim to balance reduced cost with improved service, and achieve more agility to anticipate and react quicker to the always-unpredictable marketplace.

Early offshoring applications saw U.S. P&C insurers flying claims files to Ireland where labor costs were cheaper. However, India has been the big growth area for first outsourcing and now offshoring, where it initially had the advantage of low salaries and a large pool of available, higher educated staff. India continues to enjoy significant growth—exports of software and services grew by 34.5 percent last year and are set to repeat this year. The Indian outsourcing leaders are becoming world players who are also able to offer domestic, near shore, and offshore locations to suit the client.

Outsourcing Spreads

The Indian outsourcers initially concentrated on IT development and infrastructure, and then moved into call/contact centers and routine back-office applications as did insurer offshore units. The big push now, however, is in the area of business process outsourcing targeting underwriting, claims, and generic activities such as human resources. The trend is toward more knowledge working whether it be research or actually taking over some of the core activities of insurers—the trend toward offering more expertise and flexibility rather than just an emphasis on reducing costs.

The choice of location is also widening—a recent survey by PricewaterhouseCoopers among financial services companies in the United States and Europe indicated that the top five offshoring locations were India, China,

Ireland, Malaysia, and Singapore; but the order could change within three years to China, India, Brazil, The Philippines, and Poland.

The Major Concerns

Whilst there was generally market satisfaction for IT applications and infrastructure development and maintenance, some companies experienced project overruns, but cost savings have usually been achieved. The move into call/contact centers became far more emotive with issues such as reputational risk and image and service levels having to be weighed against potential cost savings. Offshore call centers are also experiencing a rising level of staff turnover and salaries.

Another concern, particularly in the United States, has been the potential loss of domestic jobs. In the United Kingdom, there has also been trade union activity as some of the major insurers have opened offshore centers, mainly in India, and made it clear that they intend to transfer more jobs. However, the U.K. government has produced statistics to indicate that in areas such as call centers, there has been growth in domestic jobs rather than a reduction.

Other issues have been external concerns such as location, potential for terrorism, and climate.

A Look Ahead

We are seeing a maturity in the outsourcing and offshoring sector. The traditional factory-style call center is probably numbered because of improvement in communications and an evolutionary change in culture whereby the consumer is better informed and will be prepared to make simple inquiries and update his or her own personal information online. A sector where much will change is in claims processing where the U.S. P&C sector is to spend more on IT this year than on any other area. Incidentally, the U.S. P&C market will also spend more on external IT and business process outsourcing options than internally. Researchers said in a recent data monitor report, "Outsourcing, a component of service spending, will regain interest from insurers, due to the proven cost savings, and with flexible arrangements and increasing outsourcing service provider credibility."

With the Internet improving communications and aiding the integration of systems across the whole process chain, it is likely that many of the business processing outsourcing agreements will be flexible in order to deal with new business and claims surges. There will be more sophisticated performance management of offshoring and outsourcing as a higher level of regulatory compliance impacts on both sides of the pond.

Insurers will be taking a much closer view of the whole process chain and how they might differentiate in terms of cost and service. This differentiation and flexibility will determine how they work with outsourcing partners and/or they establish offshore units. Interestingly, the PricewaterhouseCoopers survey indicates that one-third of financial services companies are actually insourcing work in their offshore units.

Overall, outsourcing contracts are becoming smaller and of shorter duration, but it is certain that growth will continue. PricewaterhouseCoopers says that at present, 20 percent of those financial services companies responding to its survey had not yet set up an offshore unit; but at the end of next year that will reduce to only 6 percent.

The key for a market player when outsourcing and offshoring is to ensure that operational and reputational risk is minimized as the front and back office become increasingly integrated. The experience of communicating and sharing information electronically with an insurer to and from a customer, business partner, or intermediary needs to be seamless, consistent, and transparent. ■

Make Your Annual Meeting Memories Last a Lifetime!

Photos from the CPCU Society's 61st Annual Meeting and Seminars are now available for purchase through Choice Photography, the CPCU Society's official Annual Meeting photographer. View and order your own photographic prints, enlargements, and digital images on CD-ROM today!

To access Annual Meeting photos, go to www.cpcusociety.org, click on "View Highlights from the 2005 Annual Meeting and Seminars," and click on the photograph link on the left side of the page.

Learn Valuable New Information and Skills That You Can Apply Immediately

Audio recordings of Annual Meeting seminars are now available on CD-ROM. The sessions were recorded at the CPCU Society's 61st Annual Meeting and Seminars, October 22-25, in Atlanta, GA.

Choose from four packages:

Conference Interactive CD-ROM Set $149 + (s/h)

Set includes both Leadership Track and
Property & Casualty Insurance Track CD-ROMs.
Offered in MP3 format with speaker handouts/slides.

Leadership Track $139 + (s/h)

Property & Casualty Insurance Track $139 + (s/h)

Fraud Theme Seminars $79 + (s/h)

Note: CD-ROM plays on WIN 98/NT/2000/XP and Mac. It will not play on your house or car stereo.

To order: Visit The Sound of Knowledge's web site at http://www.twosense.net/specials/CPCU2005 to see a complete list of the seminar tracks. Order online or download an order form to order by fax, phone, mail, or e-mail.

2005-2006 International Insurance Section Committee

Chairman
Gail Beverly Burns, CPCU, CIC
60 Wilson Road
Kittery, ME 03904-5550
Phone: (207) 439-7000
gbburns@ix.netcom.com

Douglas K. Adams, CPCU
Adams and Son, Inc.
44 South Street
PO Box 460
Auburn, NY 13021-3952
Phone: (315) 253-8461
dadams@adamsins.net

Michael M. Barth, Ph.D., CPCU, AU
Georgia Southern University
Department of Finance and Economics
PO Box 8151
Statesboro, GA 30460-1000
Phone: (912) 681-0259
mbarth@bulloch.net

Karl M. Brondell, CPCU
State Farm Group
One State Farm Plaza
Corporate Hdqs. SC-4
Bloomington, IL 61710-0001
Phone: (309) 735-2275
karl.m.brondell.a1fw@statefarm.com

Juan J. Buendia, CPCU
Seguros International Services
Suite 1216
700 South Flower Street
Los Angeles, CA 90017
Phone: (213) 629-9777
scala1@att.net

Anthony P. Burger, CPCU
Pritchard and Jerden, Inc.
Bldg. 3 Suite 700
3565 Piedmont
Atlanta, GA 30305
Phone: (404) 949-1077
TBurger@PritchardJerden.com

Peggy Ellis, CPCU, CLU, ChFC, CPIW
State Farm Group
PO Box 310
Mc Kinney, TX 75070
Phone: (972) 547-3801
peggy.a.ellis.berd@statefarm.com

Frank L. Fullmer, CPCU
State Farm Insurance Companies
Suite 300
10619 S Jordan Gateway
South Jordan, UT 84095-4657
Phone: (801) 576-2388
frank.fullmer.cw97@statefarm.com

Robert J. Gibbons, Ph.D., CPCU, CLU
International Insurance Foundation
Washington, DC
Phone: (610) 687-8836
Gibbons@iifdc.org

Gary L. Grindle, CPCU
Colemont Insurance Brokers
Suite 210
195 Farmington Avenue
Farmington, CT 06032
Phone: (860) 678-8870
gary.grindle@colemont.com

Robert L. Hitch, CPCU
Mitsui Sumitomo Marine Management (USA) Inc.
PO Box 5435
Cincinnati, OH 45202-5435
Phone: (513) 719-8527
bhitch@msigusa.com

Douglas Niven Smith, CPCU
AIG World Source
2 Ricon Ctr.
121 Spear Street
San Francisco, CA 94105
Phone: (415) 836-2999
douglas.smith@aig.com

John J. Twomey, CPCU, CLU
JJT Consulting
7747 Coldstream Woods Drive
Cincinnati, OH 45255
Phone: (513) 231-8091

Ellen R. Yamshon, Esq., CPCU
Western Center for ADR
Suite J
510 Bercut Drive
Sacramento, CA 95814-3117
Phone: (916) 446-9043

Europe Chapter Liaison
Anthony L. Cabot, CPCU
XL Insurance Ltd.
Via Berchet, 2
Milano, 20121
Italy
Phone: (+39) 02 85 900- 201
tony.cabot@xlgroup.com

Japan Chapter Liaison
Keiji Fukasawa, CPCU
Finrex Japan
14-6 Nijigaoka 1 Chome
Asao-ku
Kawasaki-shi, 215-0015
Japan
Phone: (81-) 4-988-7451
k-fukasawa@par.odn.ne.jp

Honorary Member
C.P. Dower
CNA International
Phone: (312) 822-2798
charlesdower.cna.com

Honorary Member
Roseanne Iacabucci, ARe
St. Paul Travelers
Phone: (860) 954-4541
roseanne.iacobucci@spt.com

Liaison
John J. Kelly, CPCU
CPCU Society
720 Providence Rd.
Malvern, PA 19355-3446
Phone: (610) 251-2773
jkelly@cpcusociety.org

Liaison
Peter L. Miller
AICPCU
720 Providence Rd.
Malvern, PA 19355
Phone: (610) 644-2100 x7252
millerp@cpcuiia.org

International Quarterly Newsletters for 2006

The following International Insurance Section Committee members will be working on upcoming issues of the *IQ*. If you would like to contribute an article, please contact the following people:

Spring: Peggy Ellis, CPCU: Editor (peggy.a.ellis.berd@statefarm.com)
Bob Gibbons, CPCU: Co-Editor (Gibbons@iifdc.org)
Topic: South America

Summer: Tony Burger, CPCU: Editor (TBurger@PritchardJerden.com)
Doug Adams, CPCU: Co-Editor (dadams@adamsins.net)
Topic: International View of Doing Business in the United States

Fall: Gary Grindle, CPCU: Editor (gary.grindle@colemont.com)
Roseanne Iacobucci: Co-Editor (roseanne.iacobucci@spt.com)
Topic: China and India

What's In This Issue

International Quarterly
is published four times a year by and for the members of the International Insurance Section of the CPCU Society.
http://international.cpcusociety.org

International Insurance Section Chairman and Editor
Gail B. Burns, CPCU, CIC
e-Mail: gbburns@ix.netcom.com

Sections Manager
John Kelly, CPCU
CPCU Society

Managing Editor
Michele A. Ianetti, AIT
CPCU Society

Production Editor
Joan Satchell
CPCU Society

Design
Susan Leps
CPCU Society

CPCU Society
720 Providence Road
Malvern, PA 19355
(800) 932-CPCU
www.cpcusociety.org

International Insurance Quarterly

Volume 19 Number 4 IQ January 2006

CPCU Society
720 Providence Road
Malvern, PA 19355
www.cpcusociety.org