CURRENT SITUATION AND CHALLENGES LIBERALIZATION IN GENERAL INSURANCE SECTOR PPP OPPORTUNITY ON THE HEALTH INSURANCE FOR CIVIL SERVANTS

THAI GENERAL INSURANCE ASSOCIATION

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THAILAND non-life insurance sector in figures

Thailand's non-life insurance market ranked in 29th position in the world in terms of non-life premium volume in 2013, below Iran and above Finland. Amongst Asian countries, Thailand ranked in fifth position, below India and above Malaysia.

US $ MN	2010	2011	2012	2013	2014
PREMIUM GROWTH (%) NL	12.70	11.82	26.46	12.62	1.10
Market premium as a percentage of GDP and expenditure on a per capita in USD	%	PER CAPITA			
THAILAND	1.51	87			
LAO	0.72	11.09			
MALAYSIA	1.42	149			
PHILIPNIES	0.48	13			

Non-life

The non-life insurance sector is very crowded with more than 60 non-life companies, with the top five participants commanding a market share of nearly 45% in 2014 and 25 companies writing premium of less than THB 1bn (USD 30.8mn). Motor dominates the market, with a 57% share.

Is there a need for industry consolidation ? Let's discuss it

The huge flood losses in 2011 resulted in large rate increases for many property risks during 2012, coupled with restrictions in cover for natural catastrophe perils, although 2013 and 2014 saw the return of capacity to the market, a downward trend in pricing and a more relaxed attitude to the inclusion of natural perils. As a consequence, the natural disaster fund created by the OIC.

Market Share %

- Motor 55.5
- Property 19.2
- Health Care 15.8 (written by NL)

- In 2014 gross premiums for motor insurance were THB 117.9bn (USD 3.63bn), was 0.61% down on 2013. In 2014 THB 15.39bn (USD 473.83mn) or 13.05% share for compulsory motor insurance or 86.95% share for voluntary insurance. Compulsory motor insurance grew by 3.4% in 2014, but voluntary insurance premium reduced by 1.0%

Restructuring the Motor Insurance?

- The compulsory motor insurance cover is subject to statutory tariff rating, while the voluntary insurance sector is subject to maximum and minimum rating levels. Local sources suggest that the tariff is widely ignored, with discounts being offered on the minimum rating levels.
- Competition for motor business is intense, and commission paid by some companies in order to attract business can be as high as 30% and more to the more productive agents and car dealers. This is a particular feature of compulsory motor insurance where the statutory commission limit is 12%

Challenges of insurance sector (THAILAND)

- Buyer issues
  - Generally very low awareness of the value of insurance
  - Compulsory insurance often seen as a tax
- Capital market issues
  - Market small or nascent
  - Rather low capital base and solvency margins
  - After adjustments on the asset side, many companies are insolvent
- Insurance market issues
  - Small and highly fragmented market – in terms of insurance premium
  - Lack of awareness of importance of reserving
  - Lack of data and lack of awareness of value of data
  - Competition on prices should be replaced with competition on quality of service
- Claims payment standards
  - Low claims payment capacity, particularly for smaller companies
  - Long delays in settling claims - which undermines consumer confidence and results in low insurance penetration (trust)
  - Absence of a regulatory process to ensure good claim settlement standards
- Relations between companies and agencies are not regulated
- The regulator doesn't play the role of a developer
  - Lack of willingness?
  - Lack of technical capacity?
- Lack of efficient distribution channels

Typical Supervisory Challenges in Emerging Economies

- In emerging markets supervisors may have multiple objectives (protect policy holders, promote insurance development, protect state owned insurance companies)
- Data issues –
  - Unreliable data or absence of data from insurers, needed by the supervisor for proper analysis and monitoring of the industry
  - Financial data that is not timely, either when it is received by the supervisor or by the time the supervisor is in a position to take action on it;
- Legal issues –
  - Outmoded legislative requirements that do not reflect the attributes either of a modern supervisory system nor recognize the needs of a healthy, vibrant insurance industry;
  - The legal system itself may contribute to a lack of determination by the supervisor if the enforcement of legal contracts within the country tends to be a frustrating and difficult process;

Typical Supervisory Challenges in Emerging Economies

- Supervisory personnel issues –
  - Supervisory personnel require training and upgrading of skills;
  - Supervisory personnel are not adequately compensated, even by the standards of their own countries, so it is difficult to attract and retain high calibre personnel;
  - Supervisory personnel require greater access to computer systems in order to analyze and monitor financial information efficiently and effectively
- Professional standards of financial reporting, auditing and actuarial reporting are not consistent and cannot be relied upon by the supervisor;
- Boards of directors frequently lack independence from shareholders and management and so are often not in a position to provide direction and leadership

MAJOR ACHIEVEMENTS OF PPP

- Improve penetration
- Increased public awareness for HEALTH and insurance
- Centralized marketing activities and brand management
- Kept pricing at affordable level
- Enhanced claims-paying capacity
- Solid reinsurance program
- Increased operational efficiency
- Improved coordinated work between the public agencies, the insurance industry, universities, etc..
- Model structure for effective public-private partnership

PPP for HEALTH INSURANCE

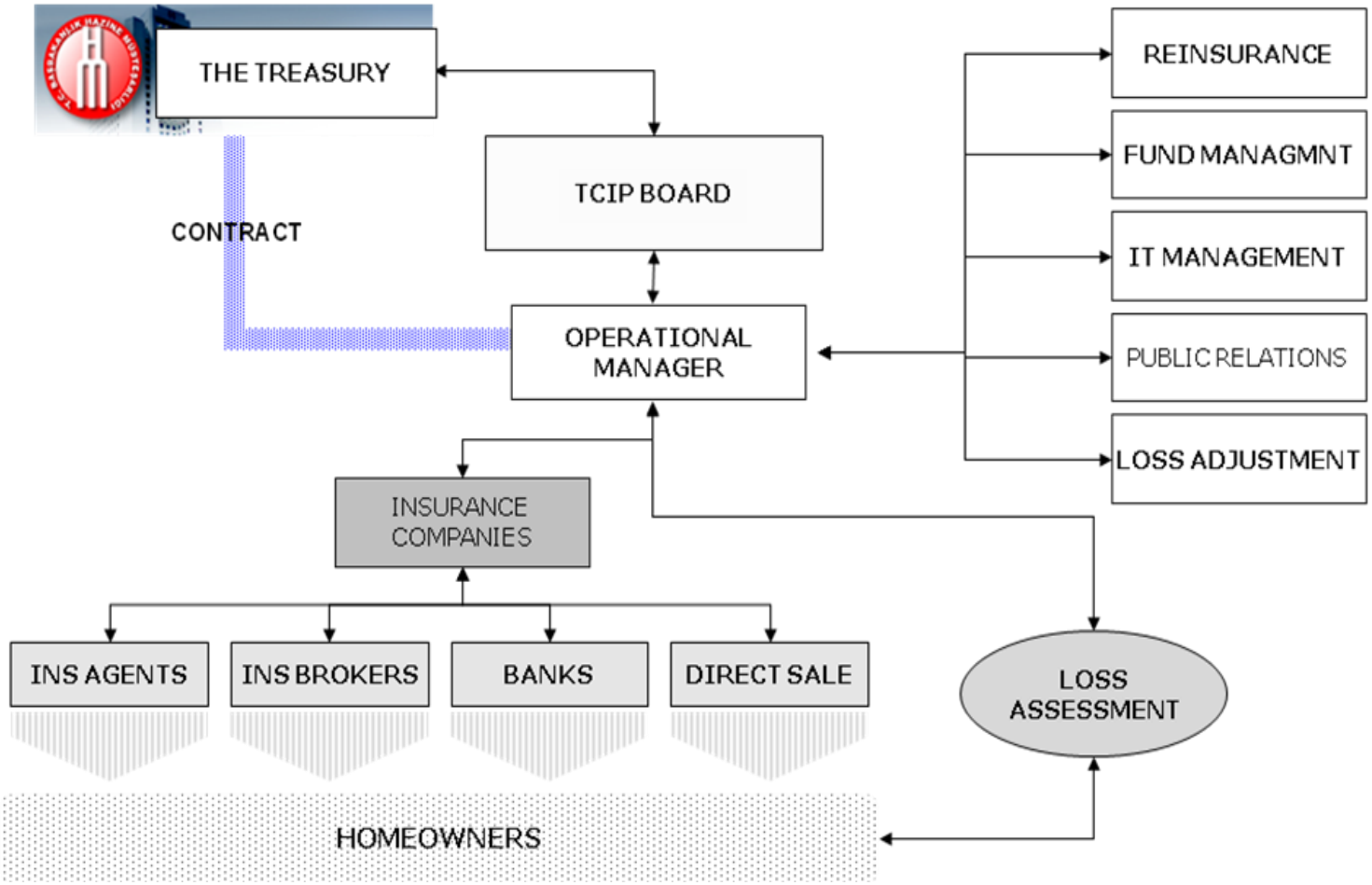
WHY

- **Reactive solutions versus proactive solutions**
- **Shortage of funds in immediate need**
- **Allowance of funds to those in need is problematic**
- **Political and bureaucratic considerations may prevail**
- **Government priorities is on getting back to economic and social life**

GOVRNMENT PRIOROTIES

- **A compulsory /voluntary health insurance system for civil servant**
- **Affordable price for every civil servant**
- **True risk transfer mechanism**
- **Claims-paying capacity to limit government's exposure**
- **Build health insurance reserves by time**
- **improvement of risk culture and insurance consciousness in public**
- **Rely on distribution channels of Thailand h insurance industry**

Proposed Organizational Structure for Thailand Health Insurance Pool-PPP



Government takes actions to move toward liberal markets ????

LIBERALIZATION-WHY AND HOW

A **liberal insurance market** is one in which the market, subject only to economically justifiable government restrictions, determines

- who should be allowed to sell insurance,
- what products should be sold,
- How products should be sold, and
- The prices at which products should be sold.

THE PATH TOWARDS COMPETITIVE, SOLVENT INSURANCE MARKETS

Phased-In Liberalization

Government should develop and implement pro-competitive insurance regulation in a way and at a pace that ensures adequate protection of the public but that proceeds without undue delay and is subject to a reasonable implementation timetable

The Regulatory Process Should be Transparent

Government should make existing insurance laws and regulations easily available to the public, including to consumers and businesses and to insurers and other financial services providers.

Legal framework

Regulation Should be Impartial

Government should ensure that insurance regulation and enforcement are applied with consistency and impartiality between competitors, irrespective of the nationality.

The Limits of Regulation

- ***Insurance regulation should be limited to that which is (1) justified as providing meaningful protection and (2) minimally intrusive to accomplish its purpose.***

Legal framework

Distribution and Product Regulation

Subject only to that regulatory oversight essential to protect the public, government should allow the market to determine (1) what financial services products should be developed and sold, (2) the methods by which they will be sold, and (3) the prices at which they will be sold.

Disclosure and Consumer Information

Government should ensure that insurance customers have access to information sufficient to enable them to make informed, independent judgments as to (1) an insurer's financial condition and (2) the benefits and value of its products.

The Regulatory Process Should be Transparent

In crafting proposed insurance laws and regulations, government should (1) make such proposals easily available to the public, including to consumers and businesses and to insurers and other financial service providers; (2) invite comment on the proposals; (3) allow sufficient time for interested parties to provide comment; (4) provide justifications for decisions to accept and reject comments; and (5) establish and communicate a fair process by which decisions considered arbitrary or unjust can be challenged

The Regulatory Process Should be Transparent

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Restrictive markets are made competitive through a combination of liberalization and restructuring market practices

A well-structured competitive market will ensure that the *quality, reasonable-priced*, and *availability* goals are attained. Very important role of government is to promote fair competition to achieve these goals, while protecting buyers from misleading, collusive, and other anti-competitive practices.

In structuring insurance markets that better serve each country's interest, regulatory reform should reflect certain principles that are designed to ensure competitive, solvent, and fair markets.

THE APPROPRIATE ROLE OF FOREIGN INSURERS

- improvements in customer service and value
- increased domestic savings
- transfers of technological and managerial know-how
- additional external financial capital
- improvements in the quality of insurance regulation
- creation of beneficial domestic spillovers, including the addition of more and higher quality
- jobs, quality enhancing backward and forward linkages, and societal loss reductions.