GATS and Financial Services Seminar
Organized by BIICL and the University of Cambridge

Growing Relationship Between International Trade/FDI and the Role of Insurance/Risk Management

- Rationale for Further Liberalization of the Insurance Sector-

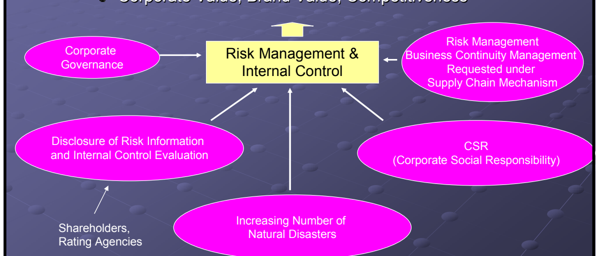
London, 22nd May 2006
by Katsuo Matsushita
General Manager
The General Insurance Association of Japan

Outline

1. Growing Importance of Risk Management
2. Mission of Insurance beyond Financial Compensation
3. Linkage between the Recent Development of International Trade, FDI and the Role of Insurance/Risk Management Services
4. Strong Rationale for Liberalization of the Insurance Sector
5. What should we, the private sector, do ?

Chapter 1: Driving Forces of Enhanced Risk Management

- Evolution of Risk Management
- Corporate Value, Brand Value, Competitiveness



Evolution of Risk Management for Sustainable Corporate/Brand Value

1. From Risk Management to
   Business Continuity Management (BCM) and Disaster Recovery Plan (DRP)

2. Do not forget, for example:
   - Risk Management in M&A, Alliance, Consolidation
     (due diligence phase and post-deal phase)
   - Risk Management in other Investment
     (e.g. securitization of real estate and environmental, pollution risk assessment)

Why are *BCM* and *DRP* so important?

1. Business enterprises are requested to ensure an adequate level of risk management and *BCM* in the international, regional and national “*supply chain”*
2. Business interruption (*BI*) losses are more serious than physical losses to manufacturing facilities caused by fire, explosion, flood, earthquake and IT system down
3. *BCM* and *DRP* stop the negative spiral caused by fire explosion, etc.
4. Better *BCM* infrastructure has a positive effect on FDI (Foreign Direct Investment)

Negative Spiral of Business Interruption (BI) caused by Various Risks

It takes tremendous efforts and a long time to build brand value but it takes only a short time to destroy it!

Basic Elements of a Business Continuity Program

- hazard identification, risk assessment and impact analysis
- hazard mitigation
- resource management
- mutual aid
- recovery plan (priorities, processes, resources and acceptable time frame for restoration of services, facilities and infrastructure)

source: NFPA 1600 Standard on Disaster/Emergency Management and Business Continuity Programs

Chapter 2: Role of insurance beyond financial compensation

1. Provide coverage with sustainable solvency
2. Fair and timely compensation in the event of disaster
3. Provide risk mitigation/risk management measures to customers
4. Enhance disaster awareness and education on disaster prevention
5. Promote environmental preservation initiatives and warn against global warming and climate change

Evolution of insurance services

- From provider of insurance coverage to provider of combined services: insurance coverage and enhanced risk management / mitigation
- Objective:
  - Win-win situation with customer and community/society beyond financial compensation
  - Reduced volatility of insurance risk and reduced insurance and other risk financing costs
- Key point:
  GIAJ's member insurers have established the specialization and know-how to provide these combined services (insurance coverage *plus* loss prevention and risk management) in a competitive market

BCM of insurance and the financial sector

- High-level principles for business continuity by The Joint Forum
- Example : Rapid insurance claim settlement in the event of catastrophe
  - Joint claim assessment of our member companies
  - Simple adjustment and rapid payment to victims

General Insurance Association of Japan 10

Example of Risk Management Service <Fire & Explosion>

1. Risk Survey
   - Management
   - Construction
   - Occupancy (type of operational and manufacturing process)
   - Protection (fire extinguishers, etc.)
   - Exposure (risk of spread of fire to neighboring premises, etc.)
2. Several Simulations and Estimation of Probable Maximum Losses
3. Recommendation for Improved Risk Management with Prioritization

Source: Tokio Marine & Nichido Risk Consulting Co., Ltd

General Insurance Association of Japan 11

Estimation of Losses caused by <Earthquake>

1. Specially developed software to estimate damage to buildings, fire losses and ground liquefaction, etc.
2. Mapping of estimated damage by using GIS (Geographical Information System)
3. Historical record of earthquakes and data on active faults
4. Simulate by feeding data such as active fault, epicenter, depth and scale of seismic activity

Source: Tokio Marine & Nichido Risk Consulting Co., Ltd

General Insurance Association of Japan 12

Estimation of Losses caused by <Typhoon>

1. Select an example of typhoon that hit landfall on a Japanese island in the past from the database, or feed in the anticipated route and *hectopascal*
2. Simulate peak wind speed city by city or country by country
3. Simulate damage to buildings (classified by building codes) city by city or country by country

Source: Tokio Marine & Nichido Risk Consulting Co., Ltd

For Safer Car Driving

- Road Accident Victims:
  - More than 1,100,000 every year
  - More than 3,000 deaths per day!
- What the insurance industry can do is limited, but we need something to reduce this tragedy
- Promotion of safer and ecology-friendly driving with full utilization of “Safety Recorder”

Exploration for Disaster Prevention

- GIAJ’s initiative, hands-on education program for school children-

"Exploration for Disaster Prevention"

Chapter 3:
Linkage between International Trade, FDI and the role of Insurance /Risk Management
Recent trends in international trade including trade in services and FDI

- increasing pattern of international supply chain
- offshoring of manufacturing facilities
- international outsourcing of certain functions in many sectors, including insurance and financial sectors
- promotion of duty-free and quota-free market access for LDC
- increase of south-south trade in goods
- positive progress of Trade Facilitation discussion in the Doha Round

These trends in international trade and investment are working positively for the economy and employment in developing host countries.
It is clear that they must be supported by stable access to various types of services, especially insurance/risk management services. Here, we have a strong rationale for the liberalization of insurance sectors.

Major benefits are:

- for business entities of emerging countries: to establish a position as an active and reliable member of supply chain and outsourcing service provider by strengthened risk management and insurance cover.
- to increase attractiveness as host country/region or location of FDI, offshoring and outsourcing through the availability of a wider choice of insurance services.
- to support LDC: Their production capacity must grow. Their products must proceed with greater ease to ports to be shipped abroad with seamless support from insurance and risk management services.
- to help Trade Facilitation achieve positive results, more export from developing countries

Chapter 4: Strong Rationale for Liberalization of the Insurance Sector - (1)

1. Access to high quality, reliable insurance/loss prevention services realized through liberalization will strengthen the international supply chain seamlessly, from producing and exporting countries to importing countries. This will bring sustainable trading opportunities to the producers and the exporters of developing countries.

2. Liberalization will create a good opportunity to introduce up-graded regulations such as solvency margin requirements and safety-nets for consumers and to accelerate the implementation of prudential regulations already accepted as international best practice.

Chapter 4: Strong Rationale for Liberalization of the Insurance Sector - (2)

3. Liberalization works as a catalyst to promote penetration of insurance protection and loss prevention awareness not only in urban areas but also in rural communities.
4. A competitive market through liberalization acts as an incentive for loss prevention and risk mitigation embedded in insurance. This would promote the growth of the host countries' economies in a more sustainable way.
5. A competitive market urges insurers to launch innovative services to help reduce the number of road traffic accident victims. Let's stop this global, creeping catastrophe!
6. Liberalization will bring impetus for the growth of stronger domestic insurers and service vendors.

Example: Lower penetration of insurance in Asia:

In 2004,the discrepancy between high insured losses in the industrialized nations and high numbers of victims in the emerging markets was particularly apparent: 96% of all catastrophe victims died in Asia, whereas this region accounted for only a quarter of the insured property damage.

Source: Swiss Re, Sigma No 1/2005

Chapter 5: What should we, the private sector, do? (1)

1. Promote dialogue with developing countries, especially with business sectors and users of insurance/risk management services.

2. Communicate with governments in both host and home countries on the potential benefits of insurance liberalization.
   We should also advise our governments on technical assistance programs and actively participate in their implementation when appropriate.

Chapter 5: What should we, the private sector, do? (2)

3. Remove the myth of liberalization:
   The opening of the insurance sector is not synonymous with simple deregulation.
   Rather, it provides a good opportunity to implement best practice in regulation, to the benefit of consumers.

4. We, as an international insurance coalition, need a well-coordinated voice to communicate with as many international communities as possible on what we have been doing to realize sustainable economies and societies beyond financial compensation. This includes such activities as campaigning on climate change and working for the preservation of the environment.

Thank you !

Contact: kokusai@sonpo.or.jp
Website: www.sonpo.or.jp/e/