



Chapter 1

Introduction

1.1 Statement of the Problem.

At present, insurance has been more involved in human living and business, this is because insurance has been penetrated in everywhere right from human's birth, old age sickness and finally death. On business, insurance will involve in all types of business, from one man business up to international business.

The benefit of insurance is that it enables individuals exposed to specified risks to contribute to a fund administered by an insurer from which the few who suffer a fortuitous loss can be compensated.

Now, the role of the Trade in Insurance has been more important, as we can see from the raising of new barrier to trade in services.

The international spreading of large risk through insurance can be achieved in a number of ways. First, it may take place at the direct insurance stage, possibly through the participation of foreign insurers as co-insurers alongside domestic companies. Second, domestic insurers may transfer apart of the risks they insure to foreign reinsurers. In return for a reinsurance premium, the reinsurer undertakes to reimburse the original insurer for all or part of the cost of any claims it may find itself liable to pay on the original direct insurance. Reinsurers in turn may also transfer a number of the risks they have accepted to other insurers. In both cases, the foreign insurer/reinsurer may operate through a local establishment; that is, an insurer/reinsurer may appoint agents abroad with binding powers to underwrite business on its behalf or it may establish its own branch offices or subsidiary company abroad (hereafter referred to as establishment business). Alternatively, insurers and reinsurers may export insurance services in the sense that they underwrite, usually at their head offices, the insurance of risks located in other countries.

Such services may be provided either for their own nationals, whether resident at home or abroad, or for foreign nationals. Hereafter this category of business is referred to as cross-frontier business.

Direct insurance and reinsurance trade results first of all in inflow and outflow of foreign-currencies which effect the Current Account.

In the Uruguay Round, the eighth round launched in 1986 and completed 7 years later, a large number of developing countries took an active role for the first time and the result was a success as the oldest forms

of discrimination-Multi-Fiber Arrangement and the exclusion of agriculture from the GATT system-against developing countries were abandoned. However, in return, developing countries had to give up their opposition to the proposition as developed countries to include services in the negotiations. Furthermore, the agreements on two other new issues-trade-related aspects of intellectual property rights (TRIPS) and trade-related investment measures (TRIMS) were concluded. The Uruguay Round has therefore resulted in the largest, most comprehensive set of trade agreements in the history of multilateral trade negotiations under GATT. In addition, the Round has come out with improvements of GATT operations by the establishment of the World Trade Organization (WTO) under the umbrella of the United Nations.

As interesting remarks, all these major accomplishments of the Uruguay Round correspond to the key US objectives and the fact that the completion of the Round was dependent on the US, as it was prolonged to allow the US to accomplish their major objectives of national interest. This highlights the continued inferior position of the developing countries in the international trading system.

GATS, a general agreement was reached on trade in services providing a general framework of principles and rules for all sectors of services. Certain service sectors, the negotiations of which couldn't be concluded, were described in the annexes to GATS. Member countries are required to establish a schedule of specific commitments for each service sector the country is ready to open up. It is a negative list schedule containing limitations or conditions to market access and to national treatment.

Thailand's schedule of specific commitments for the financial service sector. Financial services include insurance and insurance-related services, banking and other financial services. GATS classified trade in services into four modes of supply, viz. supply of services from the territory of one member into the territory of any other member (cross-border supply); supply of services in the territory of one member to the service consumer of any other member (consumption abroad); supply of services by a service supplier of one member, through commercial presence in the territory of any other member (commercial presence); and supply of services by a service supplier of one member through the presence of natural persons in the territory of any other member (presence of natural persons).

At present, there are 67 Non-Life Insurance companies in Thailand, 62 of which were registered in Thailand and 5 companies are branches of foreign companies.

There are 11 Life Insurance companies which were registered in Thailand and there is only one branch of foreign company i.e. American International Assurance (AIA). Apart from these, there are 6 health insurance companies which were registered in Thailand.

Regarding market share of life insurance in 1990, AIA company Ltd. has market share of 42 percent of life insurance business and its market share has continuously increased in 1991 and 1992. The statistic has reflected the situation of life insurance business which was not successful in gaining more market share. This situation can affect financial stability and economic security of the country as well.

In addition, after General Agreement on Tariffs and Trade of 8 Uruguay round that we mentioned above. The insurance business may be affected if the insurance business is liberalized. There may be some advantage such as technology transferring which will help reducing administration costs and enabling companies for competition. For disadvantageous aspect, there will be some capital out flow, the business may be affected if domestic companies cannot develop to compete with foreign companies and let insurance business in the hand of foreign companies which possess more capital, higher technology, better management and personnels.

All these issues lead to interest to study the effect of the insurance business on the Balance of Payments, it may include the effect of setting up more branches or provide direct services of foreign companies. These practices may result in increasing the flow of foreign currencies out of the country, the flow out of foreign currencies may be in the form of profit pay back to the head office or getting more benefit from re-insurance business.

A country's balance of payments is the record of its transactions with the rest of the world. The transactions are separated into two accounts: *the current account*, which records trade in goods and services and transfer payments to and from other countries; and *the capital account*, which records purchases and sales of assets, such as stocks, bonds and land. Both of these accounts are comprised of two sets of transactions: those between residents of the country with non-residents (for example, the provision of insurance by the resident insurance sector to foreigners) and the reverse (that is, the provision of insurance to residents by the foreign insurance sector).

From table 1, we can see that Thailand's current account in 1995 is continued surplus in the services account. This makes Thailand's current account deficit essentially a trade deficit phenomenon. The strength of

Thailand's serviced account has come largely from the strong performance in tourism and worker's remittances. Although the service account continues to enjoy a surplus, the surplus as percent of GAP has been declining as Thailand spends more on royalties and copyright, dividend and interest payments, as well as tourism. To strengthen Thailand's competitiveness in trade in services, the Government has formed a high-level committee to chart an action plan for developing a more outward-looking international services industry. The main idea is to assist the private sector and public enterprises in developing internationally-competitive services industries especially in airline, shipping, sea transportation, banking, insurance and international educational services. Success in this area will help ensure a viable position of the services account as well as facilitate deficit reductions in the medium term.

Previously, Thailand's current account deficit was caused principally by the deficit in the trade balance. After 1990, however, the size of the current account deficit has expanded rapidly as a result of not only a sharp increase in the trade deficit, but also the fact that the surplus in net services and unrequited transfers has been shrinking from 4.1 per cent of GDP in 1989 to 0.4 per cent in 1994, or one-third of the surplus in 1993. Without proper corrective measures, it is likely that the surplus in net services and unrequited transfers will eventually turn into a deficit, causing the current account deficit to be higher than that in the trade balance.

Now, the insurance data in Thailand has not been collected in a good manner. Moreover, there was no study about this topic before. So, we will basically concentrate on the effect of the insurance business on the Balance of Payments.

Table 1.1 : Balance of Payments

(Millions of Baht)

	1995/Q1	Q2	Q3	Q4	1996/Q1
1. Current Account	-61192.0	-98374.0	-75536.0	-	-88704.0
				102539.0	
1) Goods & Services	-53370.0	-85957.0	-62956.0	-94870.0	-74861.0
a. Goods	-88107.0	-93334.0	-80768.0	-	-
				111587.0	114565.0
b. Services (net)	34737.0	7377.0	17812.0	16717.0	39704.0
2) Income (net)	-9528.0	-18154.0	-14827.0	-10060.0	-14852.0
3) Current Transfers	1706.0	5737.0	2247.0	2391.0	1009.0

source : Bank of Thailand

1.2 Objective of the study

To analyze the effect of the insurance business on the Balance of Payments by using the fifth edition (1993) of the Balance of Payments Manual (BPM5) which suggested by IMF

1.3 Scope of the study

Generally, the insurance industry has many segments and the defined line between segment is unclear. For the purpose of clarity and well managed study, therefore, we will focus on non-life reinsurance business and life insurance business which related to profit remittance of their companies (Income).

Non-life insurance consist of 4 types :

- 1) Fire Insurance
- 2) Automobile Insurance
- 3) Miscellaneous Insurance
- 4) Marine and Transportation

The key to the measurement of BOP transactions relating to insurance is information on premiums and claims. The main data sources which likely to be used as information on insurance transactions are Department of Insurance and Bank of Thailand. In some cases, regulatory authorities may also be a useful source of information.

Data from foreign exchange reporting system of Bank of Thailand on premiums and claims will typically be on a cash, rather than the preferred premiums earned and claims due, basis. However, in most instances, the cash basis should be an acceptable proxy.

Under Department of Insurance, the information required to measure exports of direct insurance services and reinsurance services (and associated transactions) will typically be collected from domestic insurance and reinsurance enterprises that have been dealings with nonresidents.

This research will use the secondary time series data which cover the period 1990 -1994

Besides, we have to consider about:

- 1) In insurance business that related to foreign countries, we do not concentrate in direct insurance. We mainly concern reinsurance.

2) Capital flow which is invested by foreign investors will bring the profit back to their countries.

3) Due to the lack of information about foreign labors in Thai, so do not concern.

1.4 Organization of the study

In order to complete fundamental of the study, five chapters would be presented in this study. The first chapter will be introduction of the study consisted of the statement of the problem, objective, scope of the study, conceptual framework, description of the methodology and sources of data. The second chapter will present the overall picture of the insurance business in Thailand. The third chapter will be devoted to overlook the concept of the fifth edition of the Balance of Payments. Chapter four will be an empirical results. Finally, the last chapter mostly will be concerned with the conclusion which will summarize the results of this study and present some recommendations.

1.5 Benefit of the study

1) We can know that how insurance business in Thailand have an effect to the Balance of Payments.

2) According to the results of the study will develop statistic data of Trade in Insurance in Thailand.

1.6 Review Literature

Research Centre on Law and Development , Faculty of Laws , Chulalongkorn University studied the effect of free trade in insurance business after GATTs which related to General Agreement on Trade in Service . Recommendations include legislation in Thailand and various economic situations , it can be used as a policy of Thailand on insurance business . The analysis on the effect of liberalization on trade and insurance business will be in the form of integration between economics and laws . The analysis will be commenced on the issue of market access and national treatment which can be summarized as follows :

If the free trade is fully implemented at once, it may cause difficulty to small and inefficient life and non-life insurance companies in business competition which finally will affect the insurance business system. Hence, progressive liberalization policy should be considered for the insurance business. This is to let Thai entrepreneurs have more time for preparation to compete with foreign companies for at least 5 years. Meanwhile, deregulation measure should be implemented in order to encourage more competition among the existing companies by allowing foreign companies to participate in insurance business with Thai counterpart in the part of share holder and executive director in an appropriate ratio and coincide with other business. The ratio of share holders should be 51 for Thai and 49 for foreigner, and the ratio of executive director shall be over half of number of total directors for Thai side (majority). In addition, Thai insurance companies should be allowed to increase in an appropriate number. About the re-insurance business, ratio of share holders and executive directors from foreigners should be increased at the same rate with insurance companies. For the insurance agent and brokers are not necessarily to increase including insurance consultant, risk assess person and can open for foreigners to complete freely under the government supervision.

Apart from trade liberalization under GATTs, Thailand may be forced to open market on bilateral agreement with various countries such as USA and EU. These countries may request more than agreement under GATTs.