Jordan 2009: Maintaining Sustainability in a Changing World

Sunday, June 7		
2:00 p.m. - 7:30 p.m.	**Madaba and Mount Nebo Tour & Welcome Reception** For registrants and guests. Smart casual attire. Buses depart at 2:00 p.m. from the hotel lobby. Buses will depart Mount Nebo, returning to the Grand Hyatt Amman, beginning at 6:30 p.m. Welcome Remarks: Mr. Jamal Al-Hussein Chairman, Jordan Insurance Federation, Jordan	
Monday, June 8		
9:00 a.m. - 9:30 a.m.	**Opening Ceremony & Keynote Address** Grand Ballroom Chair: Mr. Patrick Kenny President and CEO, International Insurance Society, Inc., USA Welcome: Mr. Brian Duperreault President and CEO, Marsh and McLennan Companies Inc., USA & Chairman of the Board of Directors, International Insurance Society, Inc., USA H.E Dr. Bassel Hindawi Director General, Insurance Commission, Jordan & Chairman of the Board of Governors, International Insurance Society, Inc. **Keynote Address**	
9:30 a.m. - 9:45 a.m.	**Coffee Break** Ballroom Foyer	
9:45 a.m. - 10:30 a.m.	**Special Address I: The Aftermath of the Financial Crisis and Reforming the International Financial System** Grand Ballroom Speaker: Mr. Geoffrey Bell Executive Director, Group of Thirty, USA	

10:30 a.m. - 12:00 p.m.	**Executive Panel of World Leaders** Grand Ballroom Chair: Mr. Brian Duperreault President and CEO, Marsh & McLennan Companies Inc., USA & Chairman of the Board of Directors, International Insurance Society, Inc., USA Speakers: Mr. Geoffrey Bell Executive Director, Group of Thirty, USA Dr. Nikolaus von Bomhard Chairman of the Board of Management, Munich Re., Germany Mr. Bijan Khosrowshahi President and CEO, Fuji Fire and Marine, Japan Mr. Prem Watsa Chairman and CEO, Fairfax Financial Holdings, Canada
12:00 p.m. - 1:00 p.m.	**Luncheon** Sponsored by KPMG Sawani Terrace
1:00 p.m. - 3:00 p.m.	**CEO Panel I: Financial Issues on the CEO Agenda** Grand Ballroom Chair: Mr. Muhammad Tariq Partner, Head of Insurance, KPMG, UAE Speakers: Mr. Peter Braumüller Chairman, International Association of Insurance Supervisors (IAIS), Switzerland Dr. Roger Sellek Managing Director, Global Financial Services, AM Best, Europe, UK Mr. Donald Stewart CEO, Sun Life Financial, Canada
3:00 p.m. - 5:00 p.m.	**Discussion Session I** Registrants meet in small discussion groups. (see page 8 for meeting rooms)
6:30 p.m. - 7:30 p.m.	**Awards Gala Cocktail Reception** Ballroom Foyer
7:30 p.m. - 9:30 p.m.	**Awards Gala Dinner** Grand Ballroom *Black tie / formal wear*
9:30 p.m. - 11:00 p.m.	**Dessert Reception** Sponsored by PricewaterhouseCoopers

Tuesday, June 9

9:00 a.m. - 9:30 a.m.

Special Address II:
Economic Prospects
in the MENA Region
Grand Ballroom
Chair: Mr. Ian Dilks
Global Insurance Leader,
PricewaterhouseCoopers, UK
Speaker:
Mr. Arif Naqvi
CEO,
Abraaj Capital, UAE

9:30 a.m. - 10:00 a.m.

Coffee Break

10:00 a.m. - 11:30 a.m.

CEO Panel II:
The Image of the Industry
Grand Ballroom
Chair: Mr. Victor Apps
Retired General Manager for Asia,
Manulife Ltd., Hong Kong
Speakers:
Mr. David Banks
Editor,
Arabian Insurance Review, UK
Mr. Hussain Hadi
Editor,
Policy Magazine, UAE
Mr. Michael Loney
Editor,
Reactions, USA
Mr. Sivam Subramaniam
Editor-in-Chief,
Asia Insurance Review, Singapore

Special Address III:
Future of the Arab
Insurance Industry
Grand Ballroom
Speaker:
Mr. Abdul Khalik Raouf Khalil
Secretary General,
General Arab Insurance Federation (GAIF), Egypt

11:30 a.m. - 12:30 p.m.

Discussion Session II
Registrants meet in small discussion groups.
(see page 8 for meeting rooms)

12:30 p.m. - 1:30 p.m.

Luncheon
sponsored by PRICEWATERHOUSECOOPERS
Sawani Terrace

1:30 p.m. - 3:30 p.m.

Geneva Association / IIS Research: New Business Model for New Markets
Grand Ballroom
Chair: Ms. Sherry Manetta
Director,
Conning Research and Consulting, Inc., USA

The Cost Efficiency of Takaful Insurance Companies
Author: Ms. Hale Abdul Kader
Professor, Centre for Risk Insurance Studies (CRIS), University of Nottingham, UK
Industry Specialist: Mr. Andrew Rear
Director, Head of EMEA Insurance,
Oliver Wyman, UK

Successful Business Strategies for Insurers Entering and Growing in Emerging Markets
Author: Dr. Robert E. Hoyt
Department Head and Moore Chair of Insurance,
University of Georgia, USA
Industry Specialist: Mr. Stephen Packard
Firm Director, Deloitte Consulting, USA

An Analysis of Organizational, Market and Socio-cultural Factors Affecting the Supply of Insurance and Other Financial Services by Microfinance Institutions in Developing Economies
Author: Dr. W. Jean Kwon
Associate Professor of Insurance,
The School of Risk Management,
St. John's University, USA
Industry Specialist: Mr. Andrew F. Giffin
Principal, Towers Perrin, USA

Wednesday, June 10

9:00 a.m. - 9:45 a.m.

Special Address IV: MENA Cultural and Political Landscape
Grand Ballroom
Speaker: Dr. James Zogby
President, Arab American Institute, USA

9:45 a.m. - 10:15 a.m.

Coffee Break
Ballroom Foyer

Address to the International Insurance Society
45th Annual Seminar
Grand Hyatt, Amman Jordan June 7th – 10th 2009

The Aftermath of the Financial Crisis and Reforming the International Financial System
By Geoffrey Bell

Setting the Scene

- World is experiencing the biggest recession since the Great Depression of the 1930's. The IMF is forecasting a drop in output in 2009 and then only a slow recovery.

- View is that China, India and Brazil will emerge with modest levels of growth but better than the industrial counties.

- Key point is that the recovery in the US, UK, Western Europe and Japan will be slow like a Nike "swoosh" or even an extended "L". This is because of an increase in savings, slower growth of consumption, high levels of unemployment and tighter monetary conditions.

- Governments have spent trillions of dollars stimulating their economies (US and UK will have budget deficits equal to 12-14% of GDP this year) and central banks have been pumping money into the system to add liquidity. This is a strong reason why "green shoots" of recovery are beginning to appear across the globe.

- The "Great Recession" may end in the third or fourth quarters of 2009 in the US and later in Europe. There is no doubt that the slowdown is moderating but the strength of the recovery is in doubt. The safest course is to assume that the world economy will enter a slow period of growth by any recent historical standards.

- The risk is that interest rates rise because of government demands to raise money and this further slows the recovery.

What caused the crisis?

- Started as a result of the housing bubble in the United States. As prices rose this increased household wealth which enabled easy borrowing at very low interest rates.

- The housing bubble was amplified by a belief that house prices only rise, a deterioration of lending standards especially with the securitization of complex mortgage instruments and with very little supervision by regulators.

- Credit risks became more and more under priced especially after 2004 which persuaded bankers to look for higher yield and hence risk areas.

- This triggered leverage on a massive scale with bank and near-bank ratios soaring to unprecedented levels. Leveraged was placed on leverage through securitization culminating in CDO2 and similar instruments.

- All of this became global with even small towns in the Artic Circle buying exotic assets which turned out to be illiquid when the downturn came. Banks across the globe bought assets enabling the dance to continue.

- Risk management techniques were woefully inadequate in financial institutions and supervisors were extremely lax. Also, incentive schemes in financial institutions encouraged excessive risk taking.

- This growing bubble was encouraged by low interest rates blamed on excessive savings in China while investors believed the "Super AAA" labels on securities given by the Rating Agencies.

- The crisis erupted in the US as the housing bubble burst then assets previously thought of as liquid became unsaleable and the panic escalated at lightening speed culminating in the failure of hedge funds (Bear Stearns) and, above all, in the bankruptcy of Lehman Bros.

- The economic impact was much bigger then anyone had thought possible and spread to most parts of the world very fast. Mark to market accounting rules made matters worse and a perfect financial and economic storm ensued.

- By 2008 virtually all industrial countries were in recession for the first time since WWII and banks essentially stopped lending. Confidence disappeared and is only being rebuilt slowly.

- So a financial collapse became an economic collapse with both feeding on each other by late 2008 and in 2009.

<u>What next?</u>

a) Financial Market and Regulatory Repair:

- This will be a period of intense regulatory activity to try and ensure that such a collapse does not happen again. Moreover, this will take place around the world but led by the US, UK and Western Europe.

- Obviously, the exact form of new supervision is still in the process of being developed but some elements are very clear:

a) Capital levels will be increased for financial institutions at the cost of lower profitability.

b) Leverage ratios are being lowered and it will not be possible for investment banks and other financial institution the other financial institutions to have leverage ratios of 30 to 40:1.

c) Liquidity levels and the management of liquidity are being raised.

d) The use of off-balance sheet vehicles (SIV's) are being banned or much stricter standards are being imposed on their use.

e) Hedge funds will be registered and supervised.

f) Better qualified Board of Directors for banks are being required with individuals that have knowledge of finance.

- The supervision of financial institutions is being greatly strengthened. This may require the consolidation and streamlining of the hodge-podge of regulatory bodies in the US. Also, central banks will be given responsibility for "financial stability" and be able to intervene in any financial institution (in their own country) if they feel that it is threatening the stability of the system.

- Supervisors will explicitly try to reduce the pro-cyclical behavior of financial firms by encouraging dynamic provisioning or capital buffers.

- Supervisors will decide what is the best entity to regulate a particular institution not vice versa as in the case of AIG.

- The Basel II framework will be greatly strengthened with Pillar II being the key determinate of capital and the use of models will be downgraded.

- Above all, there will be an implicit or even an explicit distinction between banks that are systemically important (too big to fail) and the others. These banks will be subject to continuous supervision and restricted on their leverage and trading activities. The rest will be allowed to fail if they find themselves in trouble.

- There may be an effort to reduce the size of banks and institutions deemed too big to fail so that they too can be allowed to disappear at some stage.

- A major effort will be made to co-ordinate supervisory activities amongst the international regulators through the Financial Stability Board and the Bank for International Settlements. This will be difficult given that so many financial institutions are global in life but are definitely domestic in death. Here the domestic authorities argue that if they have the responsibility in bankruptcy why not in life. This process will be evolving over the next years.

b) The US Example of Financial Reform

- The future shape of the US financial regulatory system is critical both given its size and the fact that the crisis emanated from the US. Inevitably, the details are still subject to change but Secretary of Treasury Geitner's testimony to Congress on March 26th is important as is Paul Volcker's Group of 30 Report "Financial Reform A Framework for Financial Stability" published in December 2008.

- Secretary Geithner makes a major point that investment banks (the biggest like Goldman Sachs and Morgan Stanley are now commercial banks), large insurance companies, finance companies and the GSE's were subject to only limited oversight on a consolidated basis and Federal law allowed many institutions to choose among regulatory regimes for consolidated supervision. As he said "the days when a major insurance company could bet the house on credit default swaps with no one watching and no credible banking to protect the company or taxpayers from losses must end".

- The key element is to address systemic risk (banks and others too big and complex to allow to fail) with a single entity with responsibility over the major institutions.

- The need to establish and enforce substantially more conservative capital requirements for systemically important financial institutions.

- The requirement that leveraged private investment funds with assets under management over certain threshold register with the SEC.

- The need to establish a comprehension framework of oversight, protections and disclosure for the OTC derivatives market.

- To establish a stronger resolution mechanism to protect the financial system and the economy from the potential failure of large complex institutions (i.e. a wind up mechanism)

- The Volcker Report is similar but tougher with particular emphasis on systemically important financial institutions and restrictions on what they can do. Also, the national consolidated supervision of insurance companies needs to be established and Money Market Mutual Funds should be subject to bank supervision. At the same time, private funds need to be registered and the central bank should have strong role in financial stability issues.

- There are many other recommendations in the Report but generally follow the same lines as in Secretary Geitner's testimony.

c) The Case of Insurance

The Larosiere Report, more formally known is the "High-Level Group on Financial Supervision in the EU" makes special mention of insurance supervision.

Specifically the Report says:

"The crisis originated and developed in the banking sector. But the insurance sector has been far from immune. The largest insurance company in the world has had to be bailed out because of its entanglement with the entire financial sector, inter alia through credit swap activities. In addition, the failure of the business models of monoline insurers has created significant market and regulatory concern. It is therefore important, especially at a time where Europe is in the process of overhauling its regulatory framework for the entire insurance sector, to draw the lessons from the crisis in the US insurance sector. Insurance companies can in particular be subject to major market and concentration risks. Compared to banks, insurance companies tend to be more sensitive to stock market developments (and less to liquidity and credit risks, even if the crisis has shown that they are not immune to those risks either).

Solvency 2 is an important step forward in the effort to improve insurance regulation, to foster risk assessments and to rationalise the management of large firms, Solvency 2 should therefore be adopted urgently. The directive, especially if complemented by measures which draw the lessons from the crisis, would remedy the present fragmentation of the rules in the EU and allow for a more comprehensive, qualitative and economic management and supervision of large insurance groups. With colleges of supervisors all cross-border groups the directive would strengthen and organize better supervisory cooperation – something lacking up to now in spite of efforts made by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The AIG case in the US has illustrated in dramatic terms what happens when there is a lack of supervisory cooperation."

What next? Reforming the International Monetary System

- Reforming the way banks, investment banks and other financial institutions behave is critical to reduce the risk of another collapse of the system. But, it needs more which centres on the Group of 20 and the International Monetary

Fund to ensure that the system is more responsive to dangers and the IMF can help countries in temporary need of assistance.

- The G20 brings all the top countries into the system and especially the big development countries. Their role will expand in the coming years. Also, the G20 has given the Financial Stability Forum expanded membership and powers alongside a new title, namely the Financial Stability Board.

- Over the years the IMF has lost influence particularly among advanced countries. Emerging markets have quotas far short of their role in the world economy and feel that they are subject to different treatment than their bigger neighbors. They have now a voice in the G20 and the FSB but should have bigger influence in the IMF.

- Hence the role of many developing countries should be increased in the governance of the IMF. China, India, Brazil and Russia are good examples to have bigger quotas and Europe has far too many directors. Also, the top officials of the IMF should be selected based on merit and not just being from Europe and the US in the case of the World Bank.

- Most importantly, the IMF should act in a counter-cyclical manner being able to help countries through quotas credit lines and contingency funds on a substantial scale when there are failures in the international capital markets. This will boost confidence in the system just as financial market regulation and supervision is reducing bank and investment risks.

- Above all, as the world has changed with 50% of output coming from the developing world this needs to be reflected in the governance of the institutions responsible for world economic management. In addition, with the dollar accounting for 60% of world reserves but the US accounting for 20-25% of the world economy, this needs to change with the Chinese yuan playing a bigger role over the next decade.

Conclusions:

- 2009 will be the first year of much tighter supervision in all major industrial countries. The US will introduce legislation in the next several weeks, the EU is moving to implement the Larosiere Report and Lord Turner, Chairman of the FSA recently wrote a Report which is in the process of being implemented in the UK.

- While the Reports are very detailed, all want to see higher quantity and quality of capital for financial institutions. Leverage will be decreased and more emphasis is placed on liquidity levels.

- Also, everyone wants less pro-cyclically and more transparency whether in derivatives or elsewhere. The result will be that financial institutions will be subject to much more scrutiny and the old days of massive leverage in propriety trading levels and elsewhere is coming to an end.

- We will see a major battle in the United States about the institutional form of supervision with all the supervisory units like the FDIC, SEC etc fighting to preserve their roles. The chances are that the Office of Thrift Supervision will disappear and that some form of Board with the Chairman of the Federal Reserve, the OCC and the FDIC will be responsible for financial stability and not just the Federal Reserve which was the original preference of the US Treasury.

- Similarly, there is a move in the United Kingdom to give back supervisory powers to the Bank of England and disband or reduce the size and powers of the FSA. This is not likely to go very far but the Bank of England almost certainly will become responsible for financial stability.

- The Swiss National Bank has decided to adopt a "belt and braces" approach supplementing the tighter approach to banking with an old fashioned leverage ratio.

- Insurance is regarded as safer than banking but certainly not safe. Solvency II has been widely applauded in Europe and the emphasis on Pillar II capital has great support. Judgment and not simply a reliance on rules will be a central feature in the future of supervision.

- It is safe to argue that within a few years, banks and highly regulated institutions will be fighting for more freedom. But memories of the Great Recession of 2008-10 will last for many years so that finance will play a smaller role in the world economy than has been the case over the last two decades.

Geoffrey Bell
June 8th 2009

IMF Projections for World Growth – April 22nd 2009
% Change

	2008	2009	2010	Difference from Jan. 2009 Projections 2009	Difference from Jan. 2009 Projections 2010
World output	**3.2**	**-1.3**	**1.9**	**-1.8**	**-1.1**
Advanced economies	0.9	-3.8	0.0	-1.8	-1.1
United States	1.1	-2.8	0.0	-1.2	-1.6
Euro area	0.9	-4.2	-0.4	-2.2	-0.6
Germany	1.3	-5.6	-1.0	-3.1	-1.1
France	0.7	-3.0	0.4	-1.1	-0.3
Japan	-0.6	-6.2	0.5	-3.6	-0.1
United Kingdom	-0.7	-4.1	-0.4	-1.3	-0.6
Canada	0.5	-2.5	1.2	-1.3	-0.4
Emerging and developing economies	6.1	1.6	4.0	-1.7	-1.0
Russia	5.6	-6.0	0.5	-5.3	-0.8
China	9.0	6.5	7.5	-0.2	-0.5
India	7.3	4.5	5.6	-0.6	-0.9
Middle East	5.9	2.5	3.5	-1.4	-1.2
World Trade	3.3	-11.0	0.6	-8.2	-2.6

International Insurance Society, Inc.

New Business Models for New Markets

45th IIS Annual Seminar
Amman, Jordan
June 2009

CONNING

Moderator: Sherry Manetta

The Geneva Association and IIS

- The Geneva Association and IIS Research Program
  - Applied research
  - Topics of interest to global insurance leaders
- Two topics
  - New Business Models for New Markets
  - The Credit Crisis and the Insurance Industry
- 17 submissions
  - 3 winning papers

Three Emerging Markets Studies

- Successful Business Strategies for Insurers Entering and Growing in Emerging Markets
  - Researchers: Thomas R. Berry-Stölzle (University of Georgia, USA), Robert E. Hoyt (University of Georgia, USA) & Sabine Wende (University of Cologne, Germany)
  - Business Discussant: Stephen Packard (Deloitte Consulting, USA)

- Organizational, Market & Socio-cultural Factors Affecting Micro-Finance and Micro-Insurance in Developing Economies
  - Researcher: W. Jean Kwon (St. John's University, USA)
  - Business Discussant: Andy Giffin (Towers Perrin, USA)

- Cost Efficiency of Takaful Insurance Companies
  - Researchers: Hala Abdul Kader (University of Nottingham, UK), Mike Adams (Swansea University, UK) & Philip Hardwick (University of Bournemouth, UK)
  - Business Discussant: Andrew Rear (Oliver Wyman, UK)

Observations

- Emerging market growth and profitability
  - Median growth nearly 25%
  - Median profitability >13%
  - Average company size quite small (USD 117 million)
  - Penetration low—ample future opportunity

- Micro-insurance
  - Access by the poor to structured financial services at an affordable cost
  - Wide variations by region
  - Dependency on insurance penetration overall
  - Shifting organizational roles as the markets expand

- Takaful insurance
  - 80% of annual premiums in the Middle East in 2006
  - Average rate of growth from 2004-07 25% vs. 10%
  - Approximately 100 to 150 companies in nearly 30 countries

Successful Strategies for Emerging Markets

Successful Business Strategies for Insurers Entering and Growing in Emerging Markets

- Thomas R. Berry-Stölzle, Department of Risk Management and Insurance, Terry College of Business, University of Georgia (USA)
- Robert E. Hoyt, Department Head and Moore Chair of Insurance, Terry College of Business, University of Georgia (USA)
- Sabine Wende, Department of Risk Management and Insurance, University of Cologne (Germany)

- Business Discussant: Stĕphen Packard, Firm Director, Deloitte Consulting (USA)

Micro-Insurance

An Analysis of Organizational, Market and Socio-Cultural Factors Affecting the Supply of Insurance and Other Financial Services by Micro-Finance Institutions in Developing Economies

- Researcher: W. Jean Kwon, Ph.D., CPCU, Associate Professor of Risk and Insurance, the School of Risk Management, St. John's University (USA)

- Business Discussant: Andy Giffin, Principal, Towers Perrin (USA)

Takaful Insurance

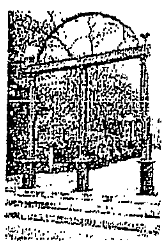
The Cost Efficiency of Takaful Insurance Companies

- Hala Abdul Kader, Centre for Risk and Insurance Studies, University of Nottingham (UK)
- Mike Adams, Professor, Chair in Finance, Swansea University (UK)
- Philip Hardwick, University of Bournemouth (UK)

- Business Discussant: Andrew Rear, Director, Head of EMEA Insurance, Oliver Wyman (UK)

CONNING

Successful Business Strategies for Insurers Entering and Growing in Emerging Markets



Thomas Berry-Stölzle, Rob Hoyt, and Sabine Wende

The University of Georgia
TERRY COLLEGE OF BUSINESS
Risk Management and Insurance Program

IIS Research Roundtables – Amman, Jordan
June 9, 2009

Overview

- Introduction
- Research Focus
- Data & Methodology
- Results
- Conclusion

TERRY TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Introduction

TERRY TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Introduction

- Entering new markets and growing in existing ones is an area of major interest within the insurance industry across the globe
- Insurance market growth rates in emerging markets are far in excess of those available in most developed countries

Corporate managers face a number of important strategic decisions:

⇒ Degree of diversification (product mix)

⇒ Focus on life or non-life business

⇒ Growth rate

⇒ Levels of financial leverage

⇒ Optimal size

Introduction

- The opportunities available to insurers in emerging markets seem very attractive

⇒ The goal of this study is to identify and assess successful business strategies for insurers entering or expanding in these emerging markets

Research Focus

TERRY TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Previous Literature

- Few studies focused on firm-level data across multiple countries (especially in emerging markets)
- Browne and Kim (1993), Browne et al. (2000), and Hussels et al. (2005) study factors affecting insurance demand across countries
- Arena (2008), Outreville (1990, 1996), Ward and Zurbruegg (2000), and Webb et al. (2002) examine the relation between economic growth and insurance markets in various countries
- Ma and Pope (2008) look at performance and market structure at the country level

⇒Our study examines the impact of various business strategies on insurer performance in emerging markets

TERRY TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Research Goal

- Examining the impact of various business strategies on insurer performance
- Focusing on the following strategic decisions:
  (1) What is the optimal degree of diversification within the product mix?
  (2) How heavily should one focus on life v. non-life business?
  (3) How quickly should an insurer grow?
  (4) What level of financial leverage is desirable?
  (5) What is the optimal size?

Data & Methodology

Data

- A.M. Best's Statement File Global for the years 2004-2007
- Our initial sample consists of all listed insurers operating in developing countries
- The classification of developing countries used in this study is the one provided by the *International Monetary Fund*
- Exclude reinsurers or pure holding companies
- Aggregate affiliated insurers operating in one country controlling for potential double counting of intra-group shareholdings
- Exclude insurers if:
  - Missing data
  - Data for previous 5 years not available (needed for std. dev. of ROE)
  - Extreme outliers (more than 4 standard deviations from sample mean)

TERRY — TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Data

Final Sample:

- The sample includes insurers from 50 different countries over the period 2004 through 2007
- 1,588 firm-year observations with a maximum of 456 unique insurers in 2004

TERRY — TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Data

The 50 countries included in our sample are:

- Antigua & Barbuda, Argentina, Bahamas, Bahrain, Barbados, Bolivia, Bosnia & Herzegovina, Brazil, Bulgaria, Chile, Croatia, Czech Republic, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Ghana, Hungary, India, Indonesia, Jamaica, Jordan, Kazakhstan, Kuwait, Latvia, Lithuania, Malaysia, Mexico, Morocco, Nigeria, Oman, Pakistan, Panama, Peru, Philippines, Poland, Qatar, Romania, Russian Federation, Saudi Arabia, Slovakia, South Africa, Tanzania, Thailand, Trinidad & Tobago, Tunisia, Turkey, United Arab Emirates, and Uruguay

TERRY — TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Methodology

- Insurer performance:
  - Return on Equity (ROE)
    - = profit before taxes/policyholder surplus
  - Risk Adjusted Return on Equity (RAROE)
    - = ROE/standard deviation of the ROE over the past 5 years
- Regression analysis to evaluate differences between high and low performing insurers

ROE = f(strategy, country specific effects, interactions, controls)

RAROE = f(strategy, country specific effects, interactions, controls)

TERRY — TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Independent Variables

- Diversification Dummy (1=both life and non-life)
- Fast Growth Dummy (1=above 66^{th} percentile of prem. growth)
- Slow Growth Dummy (1=below 33^{th} percentile of prem. growth)
- Life Premium/Premium
- Log (Total Assets)
- Surplus/Assets
- Growth in Assets (3-year growth rate in total assets)
- Growth in Income (3-year growth rate in profit before taxes)
- Mutual Dummy (1=mutual)
- Group Dummy (1=insurer belongs to a group)
- GDP per Capita Growth
- Inflation

TERRY — TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Methodology

- Regressions include country and year dummies
- Standard errors are adjusted for clustering at the company-level
- We also examine the **mediating effect of country characteristics**
  - Run 7 sets of separate regressions
  - In each set, we interact the strategy variables
    - Diversification Dummy variable
    - Fast Growth and Low Growth Dummy variables
    - and the Life Premium/Premium variable

    with dummy variables capturing different levels of the country's economic development or other country-specific characteristics
    - Below the 33rd percentile
    - Between the 33rd and 66th percentile
    - Above the 66th percentile of the distribution across our sample

TERRY — TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Methodology

Country characteristics used as mediator variables:

• GDP per capita	
• Market concentration	(market share 5 largest insurers)
• Insurance penetration	(industry premiums written / GDP)
• Credit to the private sector	(in % of GDP)
• Stock market turnover	(shares traded / market capitalization)
• Trade openness	(log[(exports+imports) / GDP])
• Corruption	(index from *Transparency International*)

Results

Summary

Annual premium growth during this period in the U.S. was only 4.1%

- Both performance measures vary substantially across … rs in our sample, e.g., the median ROE ranges from -6.4% … insurers operating in Uruguay to 48.19% for insurer… erating in Pakistan
- The sample median for ROE is 13.49% and the sample median for the one-year premium growth variable is 24.58%. This documents fast growth and solid earnings for insurers operating in emerging markets over the period 2004 to 2007
- The median size of an insurer in a developing country is still relatively small (US$ 117 million in total assets).
- The median insurance penetration (4.31%) is well below the 2007 world average (7.5%)

TERRY TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Results

Univariate Differences between High-Performance and Low-Performance Insurers

- Top 10% ROE insurer
  - are larger; have a lower surplus to assets ratio; have a higher percentage of life insurance business; are growing faster; and are more likely to belong to a group
- Top 10% RAROE insurer
  - are larger; have a higher percentage of life insurance business; are diversified (write both life and non-life business); and are growing faster

TERRY TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Results

Impact of Insurers' Business Strategies on Performance

- Regressions of ROE and RAROE on variables describing insurers' strategies (e.g., business mix, etc.) and additional variables controlling for differences in insurer and country characteristics

⇒ Diversification does not matter; faster growth is good; life insurance is more profitable than non-life; and size is good

⇒ A high surplus to asset ratio is only important for RAROE, but not for ROE

⇒ This result reflects the importance of considering risk when relating financial leverage to performance

TERRY | TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Results

Mediating Effects of Country Characteristics

- Diversification:
  - Does not matter for ROE
  - Positively related to RAROE in certain countries:
    - in high corruption countries (low levels of corruption perceptions index)
    - in countries with high trade barriers (low trade openness)
    - and in countries with low market concentration (strong competition)
  - In countries with low trade barriers (high trade openness) diversification seems to hurt

TERRY | TERRY COLLEGE OF BUSINESS | UNIVERSITY OF GEORGIA

Results

Mediating Effects of Country Characteristics

- Growth:
  - Positive effect in countries with
    - high GDP per capita
    - low insurance penetration
    - and low trade openness
  - The interaction effects with market concentration, corruption, credit to private sector and stock market turnover are unclear with respect to the Fast Growth Dummy
  - Slow Growth seems to hurt ROE in
    - high trade openness
    - low corruption (high corruption index) environments

Results

Mediating Effects of Country Characteristics

- Life business vs. non-life business:
  - The life business generates higher profitability in
    - high GDP countries
    - low market concentration countries
    - low insurance penetration countries
    - low stock market turnover countries
    - low trade openness countries
    - high corruption (low corruption index) countries

⇒ Evidence of a substitution effect: If people cannot invest in capital markets they may buy more life insurance as an investment

Do the Same Strategies Which Improve Performance Also Explain Top Performance?

Logistic regression of Top 10% dummy on insurer characteristics:

Growth:

- Fast growth has a significant, positive impact on Top 10% RAROE insurer

Life business vs. non-life business:

- Life insurance business is more profitable

Financial leverage:

- Surplus to assets ratio is negative and significant for ROE and positive and significant for RAROE

Size: bigger is better

Conclusions

Conclusions

- Successful business strategies for emerging markets involve a high growth rate, increased size and more emphasis on life insurance
- When adjusted for risk, lower financial leverage and mutual organizational form are also associated with higher performance
- A diversification strategy leads to better performance in countries with higher levels of corruption, lower competition and lower trade openness

Conclusions

- A growth strategy is associated with better performance when per capita GDP is higher, when insurance penetration is lower, and when trade openness is lower
- A focus on life insurance leads to better performance in countries with high GDP, strong competition, low insurance penetration, low stock market turnover, low trade openness and higher levels of corruption

An Analysis of Organizational, Market and Socio-cultural Factors Affecting the Supply of Insurance and Other Financial Services by Microfinance Institutions in Developing Economies

W. Jean Kwon Ph.D, CPCU
The School of Risk Management, Insurance and Actuarial Science
St. John's University, New York
kwonw@stjohns.edu

Presentation Outline

- Introduction
  - Helping people overcome (absolute) poverty
  - Defining microinsurance
- Market analysis
- Factors affecting the supply of microfinance services
- Conclusions

The Poor

- The World Bank
  - 103 out of 209 countries are low-income or lower-middle income economies (July 2008)
  - 1 billion people survived on a daily income of $1.08 in 2004 (at 1993 purchasing power parity)
- UNCDF (2005)
  - 80% of global population lived in poverty, albeit not absolute poverty in 2005

Microinsurance

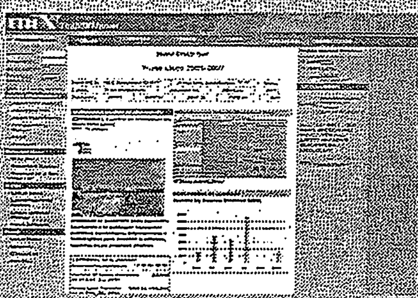
- Insurance accessed by [the] low-income population, provided by a variety of institutions that
  - Run in line with structured insurance practice
  - Help society achieve the "outreach the poor" goal
- Potential clients
  - The poor
  - Individuals with low credit or a history of bankruptcy
  - In developing and developed economies

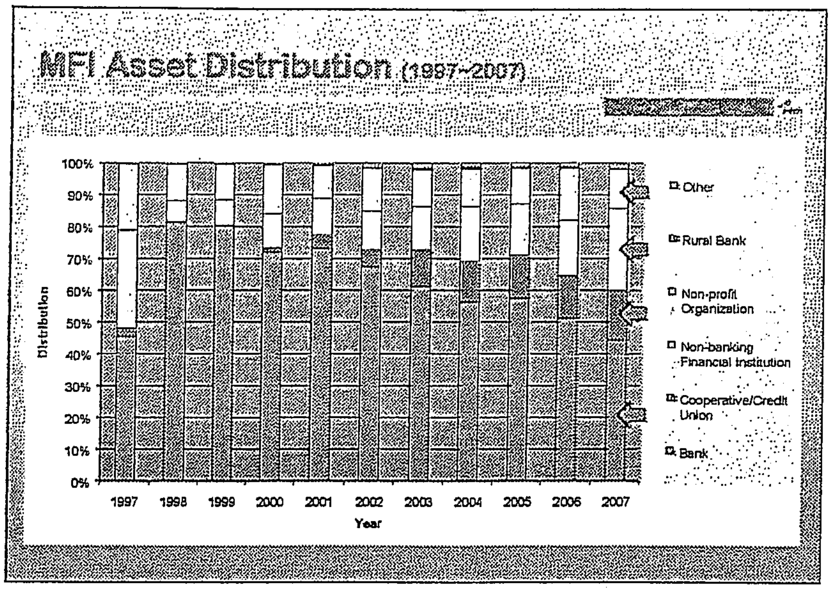
Microfinance Service Process

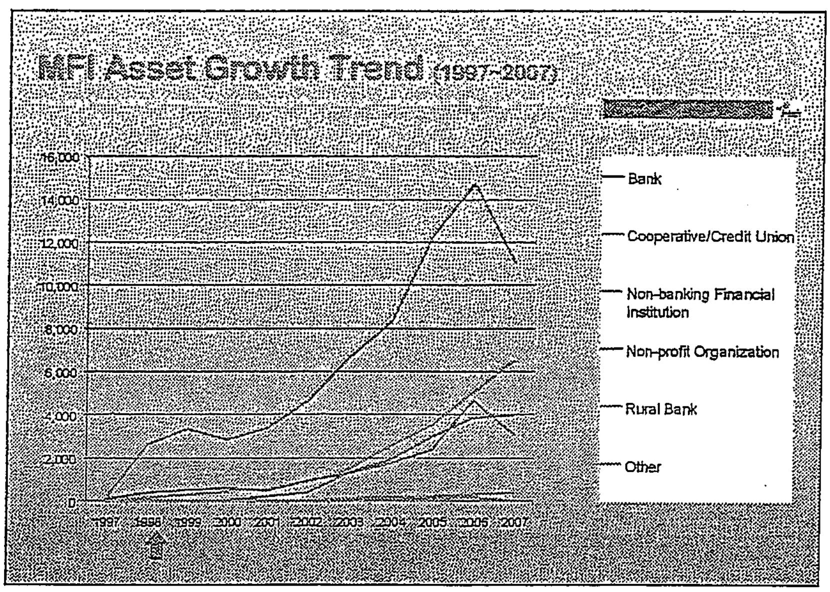
- Micro-lending (Credit)
- Micro-saving (Investment)
- Micro-insurance

The MIX Market (mixmarket.org)

- As of May 2008
  - 1205 MFIs, including
    - 323 Non-banks
    - 503 NGOs
- As of May 2009
  - 1400 MFIs, including
    - 386 Non-banks
    - 557 NGOs




MFI Asset Distribution (1997~2007)
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Distribution
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
Year
Other
Rural Bank
Non-profit Organization
Non-banking Financial Institution
Cooperative/Credit Union
Bank

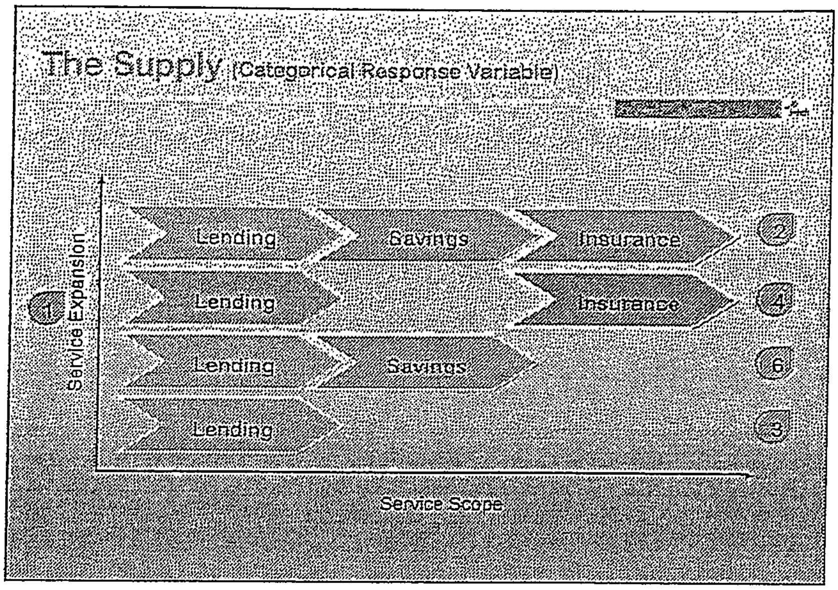

MFI Asset Growth Trend (1997~2007)
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Bank
Cooperative/Credit Union
Non-banking Financial Institution
Non-profit Organization
Rural Bank
Other

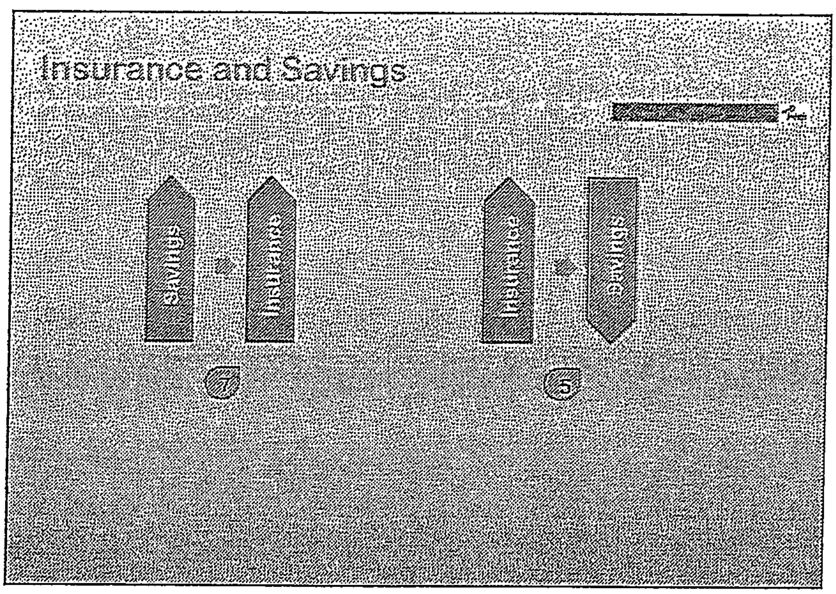
Distribution of Assets by Region (2007)

Region	Asset Distribution		Loan Distribution	
	Amount (US$ Million)	World Share	Amount (US$ Million)	World Share
East Asia & the Pacific	9,072	59.40%	5,927	55.71%
Latin America & the Caribbean	3,488	22.84%	2,836	26.66%
South Asia	1,857	12.16%	1,164	10.94%
Middle East & North Africa	392	2.57%	329	3.09%
Eastern Europe & Central Asia	251	1.64%	232	2.18%
Africa	213	1.39%	150	1.41%
Total	15,272	100.00%	10,639	100.00%

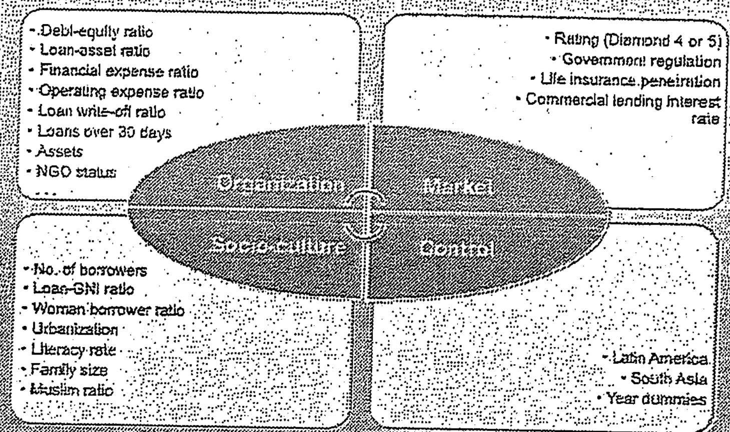
This distribution is based on the heat map analysis (January 2008) by the MIX and does not include assets of 281 institutions whose microfinance business represents less than 81% of their operations in 2007.

Empirical Examination:
Supply of Microfinance Services


The Supply (Categorical Response Variable)
Service Expansion
Service Scope
Lending
Savings
Insurance
Lending
Insurance
Lending
Savings
Lending
1
2
4
6
3


Insurance and Savings
Savings
Insurance
Insurance
Savings
7
5

Factors Affecting the Supply



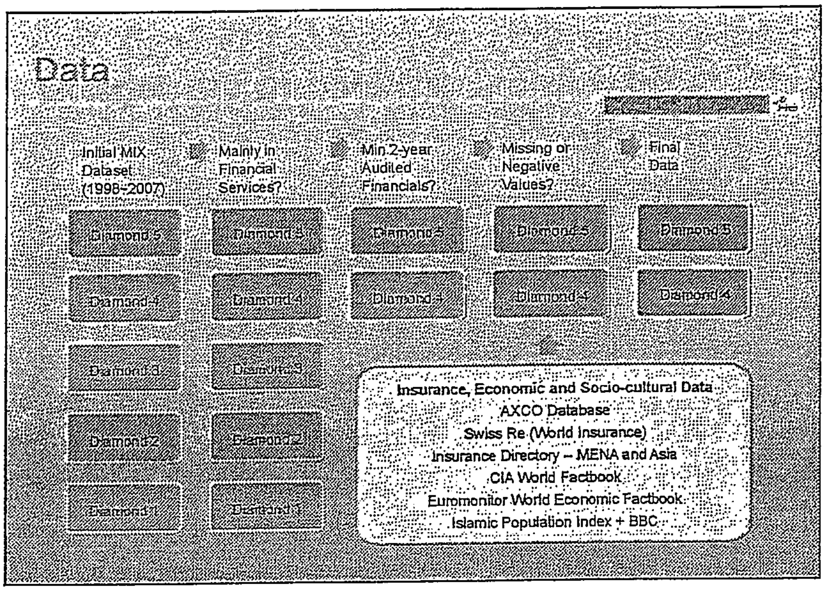
The Model (Logit and Probit)

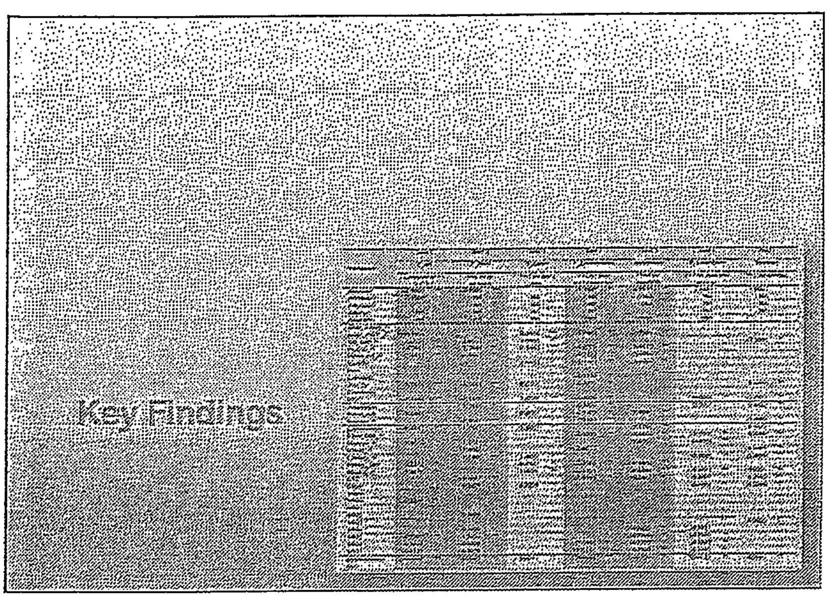
$$\begin{bmatrix} E(Y_{All}) \\ E(Y_{Loan}) \\ E(Y_{LoanSave}) \\ E(Y_{LoanInsure}) \\ E(Y_{LoanBoth}) \end{bmatrix} = \left[\beta_0 + \beta_i O_i + \beta_j M_j + \beta_k S_k + \beta_l C_l + \varepsilon\right],$$

$$E(Y_{Insurance}) = \beta_0 + \beta_i O_i + \beta_j M_j + \beta_k S_k + \beta_l C_l + Savings + \varepsilon$$

$$E(Y_{Savings}) = \beta_0 + \beta_i O_i + \beta_j M_j + \beta_k S_k + \beta_l C_l + Insurance + \varepsilon$$

O → Organizational factors
M → Market factors
S → Socio-cultural factors
C → Control factors

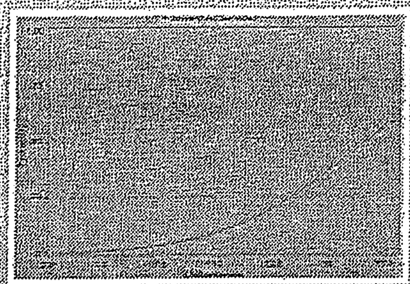

Data
Initial MIX Dataset (1998-2007)
Mainly in Financial Services?
Min 2-year Audited Financials?
Missing or Negative Values?
Final Data
Diamond 5
Insurance, Economic and Socio-cultural Data
AXCO Database
Swiss Re (World Insurance)
Insurance Directory – MENA and Asia
CIA World Factbook
Euromonitor World Economic Factbook
Islamic Population Index + BBC


Key Findings

68

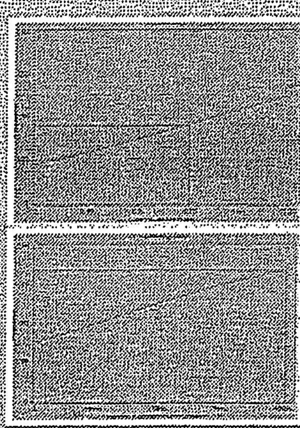
Supply of All Services

- A rise in the financial expense ratio likely induces MFIs to broaden their service scope.
- As the number of lending clients increases, MFIs are more likely to add insurance and savings, if not both.



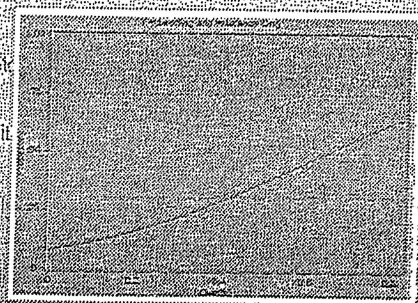
Lending Service Only

- High loan-asset ratio signals MFIs' focus at lending service only.
- Similar observation when operating expenses are on the rise.
- NGOs focus in the lending market only.
- In Muslim populous countries, MFIs are more likely in the lending market only.



Lending & Insurance Services Only

- A rise in financial expense rate, commercial lending rate or life insurance penetration ratio leads t adding insurance.
- Adding insurance high when credit risk rises.
- More female borrowers, more likel in the lending (or insurance) only.
- The large family culture and urbanization lead to adding insurance.



Lending & Savings Services Only

- Longer years of operation lead to lending and savings.
- Regulation effect positively on savings but negatively on insurance.
- A rise in the average loan amount induces savings but not likely insurance.

70

Insurance and Savings Service Relationship

- Presence of insurance service does not affect availability of savings service in the microfinance market.
- Neither does presence of savings service affect MFIs' willingness to supply insurance service.

For the Furtherance of Microfinance Services

- Broader and deeper "outreach" to the poor
- Improvement in operational efficiency and financial sustainability
- Enhancement of microfinance market regulation and self-regulation
  - Governance of rating agencies and their methodologies as well

Thank You!

About W. Jean Kwon

E-mail: KwonW@stjohns.edu
Web: http://facpub.stjohns.edu/~kwonw
Phone: +1 (212) 277-5196
Fax: +1 (212) 277-5190

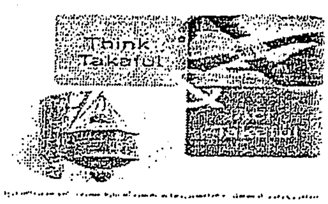
- Associate Professor, St. John's University
- Fulbright Senior Specialist
- Past President, APRIA
- Organization Committee, World Risk and Insurance Economics Congress
- Academic Advisor, International Insurance Foundation
- International Advisory Board, Financial Management Association (Singapore)
- Fellow, Networks Financial Institute
- Editorial Board, The Geneva Papers on Risk and Insurance
- Editorial Board, Journal of Insurance Studies (Korea)
- Editorial Board, The Journal of Risk Management and Insurance (India)
- External Examiner, Ph.D. programs at overseas universities

Dr. Kwon holds MBA and Ph.D., both in risk management and insurance. He is also a Chartered Property Casualty Underwriter (CPCU). In the past, he taught at Georgia State University and Nanyang Technological University (Singapore), and worked for Monetary Authority of Singapore (Director-Special Projects, Insurance Department) and the American Institute for CPCU/IIA (Director-Curriculum).

He helped to establish Asia-Pacific Risk and Insurance Association (APRIA) in 1997. He played a role in the creation of the World Risk and Insurance Economics Congress (WRIEC), an academic forum jointly organized by APRIA, ARIA, EGRIE and The Geneva Association, and is working for its Second World Congress to be held in Singapore in 2010.

Author of several books, including *Risk Management and Insurance: Perspectives in a Global Economy* co-authored with Harold D. Skipper and published by Blackwell, he continues to publish papers in academic and professional journals, present research findings at various conferences, and offer services to several academic journals, including his recently completed editor service for Asia-Pacific Journal of Risk and Insurance. He offers consulting services and special lectures for public and private entities in the U.S. and abroad.

The cost efficiency of Takaful Insurance Companies



Hale Abdul Kader (University of Nottingham, UK)
Mike Adams (Swansea University, UK)
Philip Hardwick (Bournemouth University, UK)

Overview of the Study

- Aim & Motivation
- Takaful Insurance
- Theory & Hypotheses
- Methodology
- Key Results
- Implications/Policy Questions

Takaful

Aim & Motivation

- Examines link between cost efficiency (CE) & governance structures in (non-life) Takaful insurers
- CE = TE (PTE x SE) x AE
- CE important for:
  - Operational & strategic reasons
  - Conventional performance measures deficient
- A key issue is :
  Does the governance of Takaful insurers impact on CE?

Takaful

Takaful Insurance

- Key statistics
  - Firm nos. ~ 100-150 worldwide
  - API = US$45bn (2007)
  - API rate of growth ~25% p.a.
- Key features:
  - Usual underwriting criteria apply
  - Risk pooling/risk sharing
  - Interest/ 'abnormal' profits forbidden under Shari'a law
  - Premiums invested in Shari'a compliant funds
- Key limitations
  - Limited Islamic investment opportunities
  - Limited Takaful reinsurance capacity

Takaful

Theory & Hypotheses

- Agency theory-based notions:
  - Separation of ownerships & control can create economic inefficiencies
  - Governance mechanisms (re)align interests of shareholders, policyholders, managers & other stakeholders
- Hypotheses
  - NEXECS improve (+)/reduce(-) CE
  - CEO-Chairman duality improves(+)/reduces(-) CE
  - Bigger boards improve(+)/reduce(-) CE
- Controls
  - Ownership structure, firm size, product mix, and location
  - Interaction effects

Takaful

Methodology

- DEA
  - Non-Parametric LP technique
  - Individual CE scores related to 'best practice' efficiency frontier
  - Suitable in small sample studies (like ours)
- Data
  - Balanced panel of 26 firms (2004-2006) from 10 countries
  - Source WIID (2008)
- Regression Model
  - Logit panel data model with random effects
- Variables
  - Defined in accordance with prior literature

Takaful

Key Results

- Board & firm size have +ve impacts on CE – hence 'size-resource' effects appear beneficial
- NEXECS & CEO-Chairman duality not statistically significant
- NEXCS x BSIZE has -ve impact on SE, TE & AE – hence outsiders may inhibit CE
- Ownership concentration, firm size & product specialization have positive impacts on CE – hence specialization & size effects beneficial
- Location (regulatory regime) not statistically significant

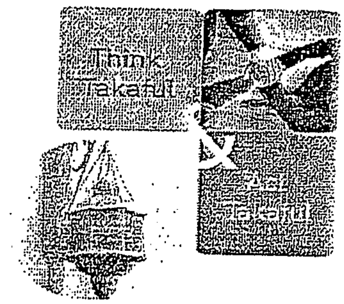
Takaful

Implications/Policy Questions

Some key implications/policy questions for the Takaful insurance industry may be:

- Are NEXECS effective?
- Should regulators look more closely at the economic impact of corporate governance in Takaful insurers?
- Are there opportunities for greater scope economies?
- Do small/niche Takaful insurers have a future?

Takaful



Thank you,

Takaful Re