

# **1 International Insurance Markets: Between Global Dynamics and Local Contingencies—An Introduction**

**J. David Cummins**

University of Pennsylvania

**Bertrand Venard**

Audencia Nantes School of Management

## **1.1 INTRODUCTION**

Insurance markets have radically and deeply changed in the last 20 years. Deregulation, globalization of insurance institutions, intensified competition, electronic commerce, bancassurance, and the emergence of new risks are among the challenges faced by insurance markets now. These developing trends pose both global and local challenges for insurance firms.

On one hand, it is clear that some key developments in the insurance and financial services markets influence global insurance markets. Some common issues have had, and will have, determinant influences globally, with limited national or local constraints. For example, the deregulation of financial services markets, advances in computing and communications technologies, and the increasing investment sophistication of financial services customers have affected markets worldwide.

On the other hand, it is necessary to avoid a simplistic view of insurance markets. Indeed, the word “global” carries an implicit hypothesis of homogenous influence of a specific factor everywhere, without any constraints. On the contrary, many insurance market segments remain localized, even in the most developed countries, and various nations and regions have particular strengths and limitations. For example, although global financial services conglomerates have made major inroads into annuity markets outside their home countries, foreign insurer market penetration in other markets such as automobile insurance is much more limited.

Moreover, the volume of electronic commerce is technically constrained by the level of Internet access in some countries. Also, the aging population is not yet a reality everywhere—many developing countries still have a high proportion of youth in their population.

Another example of a national boundary limitation to some key economic trends is the distribution of financial services products. The relative importance of distribution channels varies widely, even among relatively “homogeneous” countries. Direct insurance marketing has become very important in some national markets, such as the U.K., but remains more limited in others, such as France. Bancassurance has achieved significant market penetration in some countries, but not in others.

These developments suggest that remaining cultural, legal, institutional, and demographic considerations can have at least as great an effect as emerging global developments. Finally, while financial services integration has focused on developed markets such as the U.S., Europe, and Japan, large, rapidly developing markets in countries such as China and India will play a much more significant role in the future.

Despite the existing complexity of today’s insurance industry, both academics and insurance industry practitioners have recognized for a long time the very limited availability of information about various important national insurance markets. Most of the discussion of financial services integration has focused primarily on developed markets due to the concentration of insurance in a few countries. In fact, the U.S. market represented 34% of the world insurance premiums in 2004 and the G7 market 76% (Swiss Re 2005).<sup>1</sup> However, even in many developed countries, comprehensive analyses of developments and trends in insurance markets are difficult to find; and rapidly developing markets such as China and India have received little attention. Another potential limitation to our understanding is the lack of statistical data on many markets and the inaccuracy and lack of standardization of the data that are available.

It is therefore important to reinforce our knowledge of the various international insurance markets. The purpose of the book is to describe the key trends of the insurance industry in the last ten years in more than 15 important national insurance markets. In addition, the book contains overview chapters on Europe, South and East Asia, reinsurance, Lloyd’s of London, and alternative risk transfer. This is the first book to present a comprehensive analysis of global insurance markets.

## **1.2 CONTENTS AND COUNTRY SELECTION**

If the book’s purpose seems clear, the completion of the book was not easy. As said previously, there is a lack of information on various markets. This book is significant because it is the first of its type in the insurance industry. To resolve the “data challenge,” we have chosen to rely on an important network of academic and insurance industry experts across the globe. More than 34 experts have contributed to

---

<sup>1</sup> The G7 consists of seven of the world’s leading industrialized nations – Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

this project. The chapter on each national insurance market was written by an expert or experts from that country. The goal was for them to conduct an in-depth analysis of their own national insurance market, utilizing their local contacts to provide data and source materials. For example, two Japanese colleagues, Professor Nobuyoshi Yamori and Professor Taishi Okada were in charge of presenting the Japanese insurance market by giving an “insider” evaluation by insurance specialists. Experts were also chosen to write the overview chapters who have specialized expertise and access to the data needed to provide a comprehensive analysis of these topics.

An important task was to harmonize the gathered data. Indeed, our idea was to enable insurance practitioners and academics to be able to compare the surveyed countries. It was therefore important to require the contributing colleagues to gather and analyze the same types of information. As usual in a book of this scope, the final scientific product does not show the various erratic phases which characterize a research undertaking. The process of discovery involves a sequence of trials and errors before reaching a satisfactory final product.

The idea for the book arose during a conversation between the co-editors, Professors J. David Cummins and Bertrand Venard, after a presentation by the latter about bancassurance in France at the Wharton School, University of Pennsylvania. The immediate conclusion of the conversation was that most insurance markets were quite unknown, even to insurance specialists. At the starting point, we had an idea, but the process to finish the book was another story. We asked colleagues in various countries to analyze their markets and suggested various potential subjects. Step by step, it appeared necessary to organize and systematize as much as possible the data and the analysis of each national market. Despite some differences, the final chapters have therefore some substantial similarities. The chapter on each national insurance market follows more or less the same structure:

- Introduction
- History
- Regulation
- Presentation of the Insurance Companies
- Presentation of the Insurance Products
- Insurance Company Performance (costs, technical and financial results)
- Description of Some Key Insurance Actors, especially some leading firms
- Distribution Channels
- Future Trends
- Conclusion
- Lexicon<sup>2</sup>

A key task was to select the countries to present. Indeed, the selection is based on the importance of the country for the insurance industry, the availability of a minimum amount of data, and the availability of insurance specialists willing to carry out a very demanding project. At the starting point of this project, the question

---

<sup>2</sup> The Lexicon is quite essential since the English insurance technical vocabulary differs around the word. See the last section of this introduction for further discussion about the matter.

was to decide what an important market for the insurance industry was. We chose four criteria to select the relevant countries to study.

First, an evident criterion was the size of the insurance market, measured by annual insurance premiums. We selected the top ten countries in terms of annual insurance premiums. Table 1.1 shows the top twenty-five insurance markets in terms of annual insurance premiums. For example, since the U.S. is the largest insurance market worldwide, it was selected. The U.S. represents 34% of world insurance premiums in 2004, 27% in life and 43% in non-life insurance. Reflecting its importance, the U.S. chapter is the longest in the book. The second largest market in terms of premium volume was Japan, thus it was also selected. Separate chapters also are included on the U.K., France, Germany, Italy, Canada, the Netherlands, and Spain, rounding out nine of the top ten countries in terms of market size. Among the top ten, only South Korea is not included in a separate chapter in this edition due to lack of data about its insurance industry. It is covered briefly in the South and East Asia chapter.

In Table 1.2, we have calculated the concentration of the world insurance market by country in 2004. This concentration is over weighted since the Swiss Re sample included 88 countries rather than all countries in the world. However, the 88 countries comprise nearly all of the world insurance market in terms of annual premiums since the countries not selected by Swiss Re are considered to have very small insurance markets. The countries given chapter-length treatment in the book represent 84% of world insurance premiums and the countries covered in the regional chapters bring the total coverage of the book to 93% of world insurance premiums.

Obviously, selecting countries based on their insurance premium volume implies that we would primarily cover developed countries. In order to broaden the scope of the book, a second criterion was adopted which entailed selecting three important emerging countries with large populations—China, India, and Brazil. The rapid economic growth in these countries is driving a substantial expansion of their insurance markets. China was already the eleventh country in terms of annual insurance premiums in 2004, India the nineteenth, and Brazil the twenty-first. Brazil was also selected as the only country in our sample in South America. Table 1.3 gives some data regarding the population coverage of our sample. As indicated, countries covered in the book represent 62.4% of the total world population and the top five countries in terms of population are covered in either a country or regional chapter.

The third selection criterion was the insurance penetration (measured as annual insurance premiums in U.S. dollars as a percentage of gross domestic product (GDP)). Table 1.4 gives detailed information about insurance penetration in our sample. Among our sample of countries, some insurance markets are characterized by high levels of insurance penetration. In particular, South Africa has the world highest insurance penetration with annual premiums equal to 14.38% of GDP in 2004. This country is also the only one selected in Africa. Other important insurance penetration rates among countries covered in the book are in the U.K. (12.60%), The Netherlands (10.10%), Japan (10.51%), France (9.52%), the U.S. (9.36%), and Ireland (8.97%). Thus, Ireland was also chosen. Despite a relative small size, Ireland is an interesting case for its ability to attract foreign direct investments in the field of financial services.

**Table 1.1.** Top 25 Insurance Countries by Total Premiums, 2004

Country	Ranking	Surveyed Countries	Total Premiums (US\$ Millions)	Life Premiums	Non-Life Premiums
USA	1	C	1,097,836	494,818	603,018
Japan	2	C	492,425	386,839	105,587
UK	3	C	294,831	189,591	105,241
France	4	C	194,624	128,813	65,811
Germany	5	C	190,797	84,535	106,261
Italy	6	C	128,811	82,083	46,728
Canada	7	C	69,741	29,509	40,232
South Korea	8	R	68,623	48,680	19,944
Netherlands	9	C	58,577	31,512	27,064
Spain	10	C	55,903	23,592	32,311
China	11	C	52,171	35,407	16,765
Australia	12		49,404	25,689	23,714
Taiwan	13	R	43,236	33,851	9,385
Switzerland	14	R	42,006	24,067	17,939
Belgium	15	R	38,853	24,112	14,741
South Africa	16	C	30,682	24,381	6,301
Ireland	17	C	27,882	19,068	8,815
Sweden	18	R	24,075	15,790	8,285
India	19	C	21,249	16,919	4,330
Denmark	20	R	19,512	12,453	7,060
Brazil	21	C	18,042	8,199	9,843
Austria	22	R	17,395	7,695	9,701
Russia	23		16,352	3,544	12,809
Finland	24	R	16,330	12,823	3,507
Hong Kong	25	R	15,260	12,969	2,291
World Insurance Premiums			3,243,906	1,848,688	1,395,218

Source: Swiss Re (2005).

Notes: Ranking is determined by premium volume. C denotes that the country is covered in a separate chapter of the book. R denotes that the country is covered in a regional overview chapter.

The fourth criterion used in selecting countries to be covered in the book is the insurance density, defined as annual insurance premiums in U.S. dollars per capita in 2004. Table 1.5 shows the insurance density, life insurance density, and non-life insurance density of the top 25 insurance markets in terms of annual insurance premiums in 2004. All of the top ten countries in terms of insurance density are covered in this book, either with separate chapters (U.K., Ireland, Japan, U.S., the

Netherlands, and France) or through regional chapters (Switzerland, Denmark, Belgium, and Finland). Switzerland, which has the highest insurance density due to its very large reinsurance activities, is also partly covered in the reinsurance chapter.

**Table 1.2.** Concentration of the World Insurance Market by Country, 2004

	Total Premiums (US\$ Billions)	Cumula- tive Market Share (%)	Life Premiums (US\$ Billions)	Life Market Share (%)	Non-Life Premiums (US\$ Billions)	Non-Life Market Share (%)
Total Top 1 Country	1,097,836	34	494,818	27	603,018	43
Total Top 5 Countries	2,270,513	70	1,284,596	69	985,918	71
Total Top 10 Countries	2,652,168	82	1,499,972	81	1,152,197	83
Total Top 25 Countries	3,084,617	95	1,776,939	96	1,307,683	94
Total Chapter-Length Sample <sup>1</sup>	2,733,571	84	1,555,266	84	1,178,307	84
Total Chapter and Regional Sample <sup>2</sup>	3,018,861	93	1,747,706	95	1,271,160	91
World Insurance Premiums	3,243,906	100	1,848,688	100	1,395,218	100

Source: Swiss Re (2005).

Notes: <sup>1</sup>Total chapter-length sample includes countries covered in separate chapters.

<sup>2</sup>Total chapter and regional sample includes countries covered in separate chapters and in regional chapters.

In summary, the countries included in the book represent a very comprehensive coverage of the world's most important insurance markets. As mentioned, our sample represents approximately 93% of the world insurance premiums in 2004 (see Table 1.2). The sample is also quite important in terms of world GDP. The surveyed countries generate a total annual GDP in 2004 of US\$33,750.5 billion, equaling 83.1% of overall world GDP. Table 1.6 gives some macroeconomic information about our sample such as annual GDP, population, and inflation.

### 1.3 CHAPTER CONTENTS

In Chapter 2, Loftin Graham and Xiaoying Xie analyze the United States insurance market. With over a trillion dollars in premiums written in 2004 (approximately 9.4% of GDP) insurance operations from the U.S. also generate 33.8% of the worldwide total. Their chapter discusses the characteristics and trends of the U.S. insurance market, including a brief history, a presentation of its regulatory institutions and laws, a description of its life-health and property-liability sectors, and a discussion of current issues of importance to the industry.

**Table 1.3.** Top 25 Countries by Population

Country	Surveyed Countries	Population in millions	% of the World Population	Population Rank	GDP Rank
PR China	C	1,297.2	20.5	1	7
India	C	1,079.5	17.0	2	11
United States	C	292.4	4.6	3	1
Indonesia	R	217.5	3.4	4	23
Brazil	C	178.5	2.8	5	14
Pakistan		152.1	2.4	6	49
Russia		142.9	2.3	7	16
Bangladesh	R	140.5	2.2	8	55
Nigeria		138.4	2.2	9	54
Japan	C	127.1	2.0	10	2
Mexico		103.8	1.6	11	12
Philippines	R	82.9	1.3	12	47
Germany	C	82.5	1.3	13	3
Vietnam	R	82.1	1.3	14	57
Turkey		71.6	1.1	15	21
Egypt		68.7	1.1	16	50
Iran		67.3	1.1	17	35
Thailand	R	62.4	1.0	18	34
France	C	59.9	0.9	19	5
United Kingdom	C	59.4	0.9	20	4
Italy	C	57.5	0.9	21	6
South Africa	C	44.7	0.7	25	28
Spain	C	41.3	0.7	26	9
Canada	C	31.9	0.5	31	8
Netherlands	C	16.3	0.3	41	15
Ireland	C	4.0	0.1	72	31
Top 5 countries		3,065.0	48.3		
Top 10 countries		3,766.0	59.4		
Countries in the book (C or R)		3,957.5	62.4		
All Swiss Re Sample		6,342.1	100.0		

*Source:* Swiss Re (2005).

*Notes:* C denotes that the country is covered in a separate chapter of the book. R denotes that the country is covered in a regional overview chapter.

**Table 1.4.** Insurance Penetration of Top 25 Insurance Countries by Total Premiums, 2004

Country	Premium Ranking	Insurance Penetration Ranking	Total Penetration (%)	Life Penetration (%)	Non-Life Penetration (%)
USA	1	10	9.36	4.22	5.14
Japan	2	5	10.51	8.26	2.25
UK	3	3	12.60	8.92	3.68
France	4	9	9.52	6.38	3.14
Germany	5	22	6.97	3.11	3.86
Italy	6	19	7.60	4.86	2.74
Canada	7	21	7.02	2.97	4.05
South Korea	8	8	9.52	6.75	2.77
Netherlands	9	6	10.10	5.43	4.67
Spain	10	27	5.63	2.38	3.25
China	11	42	3.26	2.21	1.05
Australia	12	15	8.02	4.17	3.85
Taiwan	13	2	14.13	11.06	3.07
Switzerland	14	4	11.75	6.73	5.02
Belgium	15	7	9.62	6.73	2.89
South Africa	16	1	14.38	11.43	2.95
Ireland	17	12	8.97	5.74	3.23
Sweden	18	23	6.96	4.56	2.39
India	19	44	3.17	2.53	0.65
Denmark	20	14	8.07	5.15	2.92
Brazil	21	49	2.98	1.36	1.63
Austria	22	25	5.95	2.63	3.32
Russia	23	51	2.83	0.61	2.21
Finland	24	13	8.77	6.89	1.88
Hong Kong	25	11	9.27	7.88	1.39
Average		18	8.28	5.32	2.96

Source: Swiss Re (2005).

Note: Insurance penetration is defined as annual insurance premiums as a percentage of GDP.

**Table 1.5.** Insurance Density of Top 25 Insurance Countries by Total Premiums, 2004

Country	Premium Ranking	Density Ranking	Total Density	Life Density	Non-Life Density
Switzerland	14	1	5,716.4	3,275.1	2,441.2
UK	3	2	4,508.4	3,190.4	1,318.0
Ireland	17	3	4,091.2	2,617.4	1,473.8
Japan	2	4	3,874.8	3,044.0	830.8
USA	1	5	3,755.1	1,692.5	2,062.6
Denmark	20	6	3,620.4	2,310.5	1,309.9
Netherlands	9	7	3,599.6	1,936.5	1,663.1
Belgium	15	8	3,275.6	2,291.2	984.4
France	4	9	3,207.9	2,150.2	1,057.7
Finland	24	10	3,134.1	2,461.0	673.1
Sweden	18	12	2,690.0	1,764.3	925.7
Australia	12	14	2,471.4	1,285.1	1,186.3
Germany	5	15	2,286.6	1,021.3	1,265.3
Italy	6	16	2,217.9	1,417.2	800.7
Hong Kong	25	17	2,217.2	1,884.3	332.9
Canada	7	18	2,188.7	926.1	1,262.6
Austria	22	19	2,159.7	955.3	1,204.4
Taiwan	13	20	1,909.0	1,494.6	414.4
South Korea	8	22	1,419.3	1,006.8	412.5
Spain	10	24	1,355.2	571.9	783.3
South Africa	16	31	686.5	545.5	141.0
Russia	23	52	114.4	24.8	89.6
Brazil	21	55	101.1	45.9	55.2
China	11	72	40.2	27.3	12.9
India	19	78	19.7	15.7	4.0
Average		21	2,426.4	1,518.2	908.2

Source: Swiss Re (2005).

Note: Insurance density is defined as insurance premiums in US\$ per capita.

Table 1.6. Macroeconomic Data for Top 25 Insurance Countries by Total Premiums, 2004

Country	2004 Premium Ranking	2004 GDP Ranking	Surveyed Countries	2004 Population (Millions)	2004 GDP (US\$ Billions)	Real % change in 2004 GDP	Real % change in 2003 GDP	2004 Inflation (%)	2003 Inflation (%)
USA	1	1	C	292.4	11,735.0	4.4	3.0	2.7	2.3
Japan	2	2	C	127.1	4,683.2	2.6	2.0	0.0	-0.3
UK	3	4	C	59.4	2,125.5	3.1	2.2	1.3	1.4
France	4	5	C	59.9	2,018.4	2.3	0.5	2.2	2.1
Germany	5	3	C	82.5	2,707.1	1.6	-0.1	1.7	1.0
Italy	6	6	C	57.5	1,677.9	1.0	0.4	2.1	2.6
Canada	7	8	C	31.9	993.8	2.8	2.0	1.8	2.7
South Korea	8	10	R	48.4	720.7	4.6	3.1	3.6	3.5
Netherlands	9	15	C	16.3	579.9	1.4	-0.9	1.3	2.1
Spain	10	9	C	41.3	993.1	2.7	2.5	3.0	3.0
China	11	7	C	1,297.2	1,599.0	9.5	9.4	3.9	1.2
Australia	12	13	C	20.0	616.3	3.2	3.4	2.3	2.8
Taiwan	13	20	R	22.6	306.0	3.3	3.1	1.6	-0.3
Switzerland	14	17	R	7.3	357.4	1.7	-0.4	0.8	0.6
Belgium	15	18	R	10.4	352.5	2.8	1.3	2.1	1.6
South Africa	16	28	C	44.7	213.3	3.7	2.8	1.4	5.9
Ireland	17	31	C	4.0	181.8	4.9	3.6	2.2	3.4
Sweden	18	19	R	8.9	346.1	3.0	1.6	0.4	1.9
India	19	11	C	1,079.5	670.0	7.1	8.5	3.8	3.8
Denmark	20	26	R	5.4	241.9	2.0	0.4	1.1	2.1
Brazil	21	14	C	178.5	604.8	5.2	0.6	6.6	14.7
Austria	22	22	R	8.1	292.3	2.0	0.8	2.1	1.4
Russia	23	16	R	142.9	578.3	7.1	7.3	11.0	13.6
Finland	24	30	R	5.2	186.2	3.4	2.5	0.2	0.9
Hong Kong	25	33	R	6.9	164.6	8.1	3.2	0.0	-2.1
Total Sample: C				3,372.0	30,782.9				
Total Sample: C + R				3,495.2	33,750.5				
Total World				6,342.1	40,630.0				

Source: Swiss Re (2005).

Notes: C denotes that the country is covered in a separate chapter of the book. R denotes that the country is covered in a regional overview chapter.

In the third chapter, the Japanese insurance market is discussed by Nobuyoshi Yamori and Taishi Okada. It is an interesting market not only due to its size, but also to its important transformation since 1990. In particular, deregulation and liberalization in the insurance business has been accelerated by the Japanese "Big Bang" initiative. Insurers can now provide the public with a wide range of insurance products and services. Furthermore, foreign insurers have increased their market share substantially in the 1990s. The authors explain not only how the Japanese insurance market and insurers have changed, but also why they have changed and, in some respects, have not changed. The authors analyze several key aspects of the Japanese insurance market and insurers that make them unique.

In Chapter 4, Philip Hardwick and Michel Guirguis describe the United Kingdom, the largest insurance market in the European Union (E.U.) and the third largest in the world. Insurance companies are also the largest domestic owners of U.K. shares, holding about a fifth of all U.K. ordinary shares. Yet the insurance industry has never faced greater challenges than it does today. This chapter provides an overview of the structure of the U.K. insurance market and describes the main suppliers of insurance and their financial activities. In addition, the authors focus on the product structures of U.K. insurers and their distribution channels. They outline the major challenges and current trends faced by major insurers and present data on the relative international competitiveness of U.K. insurers. Finally, using cross-sectional and time-series data, they apply data envelopment analysis to estimate and compare the relative performance of U.K. life and general insurance firms.

In the fifth chapter, Bertrand Venard discusses the French insurance market, the fourth-largest in the world in terms of premium volume, in tune with the economic power of the country. Among the chapter's topics are the history of the insurance market, the life insurance market, the property-casualty market, financial results of insurance companies, main economic actors, and distribution channels. The French insurance market is characterized by a long history. For many centuries, an important feature was the important involvement of the French State in the supervision of insurance activities. It is also interesting to note that the country was quite innovative in building its insurance market, leading to new insurance activities, such as employer liability for employee casualties in the workplace. In recent years, the building of the European Union has had an important impact on French insurance markets through new insurance laws, the intensification of competition, and the European directives, all of which created freedom of access to the French insurance market. From 1990 to 2005, both life and property-casualty insurance markets have been constantly growing in accordance with French GDP. In 2003, life insurance represented 63% of the insurance market. A distinctive feature of this market is the importance of *bancassurance*, France being a leading market in the convergence of banks and insurance companies.

In Chapter 6, Raimond Maurer and Barbara Somova present an overview of the contemporary German insurance market, its structure, players, and trends. After a brief discussion of the history of the insurance industry, the authors analyze the contemporary market in terms of its legal and economic structure, with statistics on the number of companies, insurance density and penetration, the role of insurers in the capital markets, premiums by line of insurance, and the main market players and their market shares. Furthermore, the three biggest insurance lines—life, health, and property-casualty—are considered in more detail, including product range, country

specifics, and insurance and investment results. A section on regulation outlines its implementation in the insurance sector, offering information on the underlying legislative basis, supervisory body, technical procedures, expected developments, and sources of more detailed information.

Next, Luigi Ventura describes the Italian insurance market, which has undergone a series of important changes over the last fifteen years. It has become a more mature market, able to compete with those established in the most developed European countries. The author analyzes some key factors which have had an impact on the development of the Italian insurance market in the last decade, both from a descriptive statistics point of view and from a more applied, econometric standpoint. Many crucial events that occurred in the 1990s are also discussed in some depth, such as the evolution of the distributive system, the changes in fiscal treatment of insurance products, and the steps towards the creation of a common European market for insurance.

In Chapter 8, Gilles Bernier and Alli Nathan outline the key features of the structure, conduct, and performance of the Canadian insurance industry—both life and property-casualty insurance—over the period from 1990 to 2003. On the international insurance scene, Canada one of the big players, ranking seventh in 2004 in terms market share of the total insurance premiums sold worldwide. Indeed, Canada is an interesting country to study because its insurance industry is stable, dynamic, and open to foreign ownership and participation. After providing a brief history of the industry and reviewing the economic environment that prevailed during this period, this chapter characterizes many dimensions of Canada's insurance markets, including, among other things, the evolution of premium volumes and concentration in each major line of business, the importance of the industry in the economy, the leading players in each class of insurance, the financial performance of both sectors of the industry, and the past, current, and future trends most influential for the whole sector. Today, the insurance industry and the banks are the two key pillars of the Canadian financial system. As such an important player, the insurance industry contributes to the competitive environment of the system and to the greater efficiency of its financial markets.

In the ninth chapter, Alfred Oosenbrug analyzes the insurance market in the Netherlands. A brief overview of the long and rich history of insurance in the Netherlands is given first. Holland was the homeland of the founding father of modern life insurance mathematics, Johan de Witt, while during the seventeenth and eighteenth century the Netherlands comprised among the most important markets for non-life insurance. The traditional openness of the Dutch insurance market stems from a long history of liberalism and tolerance in Holland in general. As a consequence, more than a thousand insurers are licensed to operate in the Dutch market. Furthermore, the leading Dutch insurance groups are key players in insurance markets all over the world. The last two decades of the twentieth century were characterized by strong growth for the Dutch domestic insurance market. However, recently, booming market trends have ceased and the economy has cooled down, stock markets have been sluggish, and strong fiscal incentives for life insurance business were abolished.

In Chapter 10, María Rubio-Misas presents Spain, another European market. The chapter provides an analysis of the structure, conduct, and performance of the Spanish insurance industry from 1990 to 2003. The industry consists of life

insurance specialists, non-life insurance specialists, and diversified firms that offer both life and non-life insurance. Although the majority of firms in the market are organized as stock firms, mutuals have a relatively important market share in automobile insurance. Foreign insurers have an active presence in the Spanish market, basically through Spanish licensed and regulated subsidiaries. The number of firms in the industry has fallen dramatically due to firm retirements, insolvencies, mergers, and acquisitions. However, a large number of firms entered the market during the sample period. Among the key features of the Spanish insurance market, the author notices the concentration increase in non-life insurance, the domination of bancassurance in the life insurance business, and the importance of traditional insurance distribution channels (brokers and agents) in the non-life insurance market.

In the eleventh chapter, the Irish insurance market is analyzed by Brian Greenford, Martin Mullins, John Garvey, Louise Morris, and Liam O'Meara. The property-casualty market is first considered. This section aims to show how the property-casualty market has grown and the problems that have arisen, with special emphasis on the innovative approach to dealing with compensation claims under liability and motor policies. The life insurance market is growing rapidly, having developed dramatically since the inception of the state. The health insurance market is peculiar to Ireland in that private insurers must charge the same premium regardless of risk. Pensions are also of concern in Ireland as, like the rest of Europe, the proportion of elderly has been increasing. Ireland also has become a financial services center with reduced taxation and special concessions for insurers operating within the Irish Financial Services Centre (IFSC) in Dublin. This endeavor has become very successful with many insurance companies entering the IFSC to sell insurance internationally. Thus, financial services have become extremely important to the Irish economy.

The twelfth chapter is the first one about a developing country: China. Qixiang Sun, Lingyan Suo, and Wei Zheng are Chinese colleagues, working in China and thus are able to give a unique insider perspective on a market that is largely unknown outside China, despite its growing importance. During the last two decades, China's insurance industry developed from a virtually nonexistent, minimal, and closed industry into a large, open industry with potential promise. As part of China's reform and opening up, China's insurance industry was inevitably deeply affected. The main purpose of this chapter is to provide an analysis of the development of China's insurance industry in the context of reform and opening up, discuss the major experiences and problems in the process, and examine the future prospects of the industry. The chapter begins with a brief history of development of the insurance industry in three stages: (1) resumption and restoration from 1980 to 1985, following the closure of the domestic insurance industry in 1959, (2) the beginning of market-oriented reform from 1986 to 1991, and (3) the opening up and rapid growth from 1992 to the present. The chapter describes the key features of China's insurance market in each respective stage. Opening to the outside world has contributed significantly to the rapid increase of capital and technologies, a favorable competitive environment, and the steady growth and development of China's insurance industry. In this context, the authors explore China's World Trade Organization (WTO) commitments concerning the insurance sector. Finally, key drivers of and possible obstacles to the future growth of China's insurance industry are discussed.

In Chapter 13, Tapen Sinha analyzes another important emerging country: India. With over one billion people, India is fast becoming a global economic power. With a relatively youthful population, India will become an attractive insurance market in the coming decades. This chapter examines the Indian insurance industry by first examining the details of the regulatory regime that existed before India gained its independence in 1947. This is important because the Insurance Act of 1938 became the backbone of the current legislation in place to regulate insurance. The chapter goes on to highlight the importance of the rural sector, where the majority of Indians reside, and describes how the recent privatization is playing out in the market. Based on recent economic estimates, the chapter provides projections for the principal segments of the insurance market through 2025.

In the fourteenth chapter, Robert Vivian provides an overview of South Africa's insurance market, the only African market covered in this book. In the African context, South Africa is very important. The South African life insurance market accounts for 95% and the property-casualty insurance market accounts for 57% of the total premiums of the African continent. As a percentage of GDP, South Africans purchase more life insurance than any other country in the world. As Vivian explains, life insurance assumes a critically important role because, for all practical purposes, South Africa does not have a meaningful government social security system. As a consequence, financial security must be provided by each individual. Reasons why retirement funding and medical aid have been linked to employment and not the government are examined. Retirement funds are not on a pay-as-you go basis, but rather are funded. The aggregate assets of these funds are approximately equal to the country's GDP. Vivian explains the new political forces which arose when the universal franchise was introduced with the end of the apartheid era in 1994. These forces have reshaped financial markets as various changes have been introduced, including the compulsory transformation in terms of the Black Economic Empowerment (BEE) program.

Another emerging market analyzed in the book is Brazil, the only South American country covered in this book. Andrea Levy and Fernanda Chaves Pereira describe the performance of the Brazilian insurance market in recent years and the current challenges facing the industry. Some comparisons with other Latin American countries are provided. The Brazilian insurance development followed the economic restructuring of the country that took place in recent years. In particular, the new economic order that began with the adoption of the Plano Real in 1994 promoted financial and monetary stability after a long period of very high inflation. Occurring simultaneously with this new economic reality, the Brazilian government became concerned about the formation of long-term savings and began in 1995 to develop tax incentives for investment in pension plans. These factors permitted the explosive development of the market for open enrollment pension plans and insurance beginning in 1995. At the same time, the changes in the age distribution of the Brazilian population and legislative reforms in the National Social Security system are discussed as well as the difficulties that Brazil will encounter as the authorities attempt to deal with the situation of chronic deficits that currently plague the system. Finally, the various types of insurance that are sold in the market today, the distribution of the companies that operate in the market, the premiums collected, and the related technical, commercial, and administrative results are discussed.

In addition to the individual country chapters, we decided to include in the book other chapters which provide a regional perspective. In Chapter 16, Paul Klumpes, Paul Fenn, Steven Diacon, and Christopher O'Brien carried out an overview of the main European insurance markets. Indeed, the European insurance market has recently developed in several different segments. The European Union (E.U.) has highlighted the increasing interdependencies of insurance markets by adopting Insurance Directives with the objective of creating a single European market for insurance. The Third Generation Directives, adopted in 1994, were particularly important because they established a "single passport" system, whereby an insurer licensed in one E.U. member nation can conduct business in all E.U. countries. With banking also becoming less regulated, the traditional separation of insurance as a regulated activity has devolved into increasing integration into broader financial markets that affect risk allocation and transformation. This chapter reviews the recent developments in European countries that are subject to European Union regulations. The authors review the major countries and analyze the current trends and identify areas where European regulation is likely to affect future trends. Furthermore, the authors highlight the role of the financial markets and consumer trends that may limit the development of markets. The analysis suggests that common themes of consolidation, poor performance, reduced capitalization levels, and increased market segmentation are pervasive across the European insurance industry over the last ten years. The analysis of solvency and accounting regulations suggests greater harmonization in the future, with major implications for risk management practices. The authors conclude that the European insurance market is subject to an evolving solvency-based regulation that is more closely aligned with international competitiveness and they provide recommendations to further enhance the degree of harmonization in solvency and accounting rules.

In Chapter 17, South and East Asian insurance markets are analyzed by Stephanie Hussels, Claire Sherman, Damian Ward, and Ralf Zurbrugg. This chapter acts as a guide to both executives and academics who are interested in understanding the determinants of insurance market development and how it may affect general economic development in South and East Asia. By providing a synopsis and evaluation of recent empirical research on the development of insurance markets in general and South and East Asia in particular, this chapter provides a balanced understanding of the factors that promote both the demand and supply sides of South and East Asia's insurance markets. The chapter closes by highlighting certain issues that both insurance companies and executives can utilize in their own markets to design future policies that can be geared to promote insurance market development and growth.

In the eighteenth chapter, Thomas Holzheu and Roman Lechner discuss the global market for reinsurance. Reinsurance is clearly the most globalized segment of the insurance market. For example, international reinsurers have played a major role in paying claims for many natural and man-made catastrophes, including Hurricane Andrew in 1992, the Northridge earthquake in 1994, and the World Trade Center terrorist attacks of September 11, 2001. They also played an important role in insurance payments for Hurricane Katrina, which destroyed part of the southern United States in September 2005 and was the most expensive natural catastrophe in history in terms of insurance losses. The impact of such disasters is global and usually leads to an increase in the world reinsurance premium rates. By providing

coverage against adverse fluctuations in claims, reinsurance protects the capital base of the primary insurer and creates a more diversified portfolio, reducing the volatility of underwriting results. In 2003, primary insurers ceded business worth US\$170 billion to reinsurers worldwide, of which 83% was property-casualty insurance and 17% life insurance. Around 84% of ceded business was generated in the mature insurance markets of North America and Western Europe, reflecting these regions' importance as sources of primary insurance revenue. U.S. and Continental European reinsurers are the main sources of global reinsurance capacity and Bermuda and the London Market are the other major reinsurance centers. Periodic underwriting and investment losses since 1992 have prompted a wave of structural changes in the industry. The number of domestic market players declined, especially in the United States, while another generation of Bermuda start-ups rapidly gained market share. Price increases following events such as Hurricane Andrew in 1992 and the World Trade Center terrorist attack of 2001 restored the profitability and capitalization of the global reinsurance industry, but the industry is subject to periodic loss shocks such as Katrina.

An interesting market place, especially for reinsurance, is Lloyd's of London and the London company market. In Chapter 19, Julian James provides an insider perspective on these markets from his position as Worldwide Markets Director at Lloyd's. The London market and in particular Lloyd's, one of the world's oldest and best known insurance markets, is a significant contributor to the global insurance industry and plays a leading role in internationally-traded specialist insurance and reinsurance. The chapter looks in detail at the operations of the London market by identifying market participants and the skills offered. Turning to Lloyd's, the chapter describes the market's rich history—from a seventeenth century coffee shop to the sophisticated market place of the present day. The chapter discusses how Lloyd's operates—explaining that it is a market and not a company. Next, the reasons for and extent of Lloyd's global reach are highlighted, focusing in particular on the U.S., which is Lloyd's largest single market. Finally, the chapter discusses what Lloyd's believes to be the current hot topics for the non-life industry around the world: managing the insurance cycle, business processing reform, and climate change. The chapter also considers the London company market, which consists of insurers that also contribute significantly to world insurance capacity, particularly in specialized commercial non-life insurance coverages.

In the twentieth and final chapter, the growing sophistication of markets for traditionally insured risks is analyzed by Robert Hartwig and Claire Wilkinson, who discuss the market for alternative risk transfer (ART). The ART market goes beyond traditional insurance and reinsurance markets to find innovative solutions to risk financing and risk management. An ever-changing risk landscape and the emergence of new and complex risks have driven the development of the ART market. The market often provides risk bearing capacity where little or no traditional insurance and reinsurance coverage is available or where insurance coverage is inadequate. At one extreme, high severity, low frequency property-casualty exposures are well-suited to capital market solutions such as catastrophic risk (CAT) bonds, which can greatly expand available capacity. At the same time, non-insurance commercial enterprises have become increasingly comfortable as bearers of risk, particularly for high frequency, low severity events, leading to increased interest in solutions that accommodate high levels of risk retention such as self-insurance programs and

captive insurance companies. This chapter discusses all of the major categories of ART solutions commonly found in the market today, including self-insurance and captives, risk retention groups, finite risk (re)insurance, catastrophe bonds, and supplementary government programs.

#### **1.4 GLOBAL SIMILARITIES AND LOCAL DIFFERENCES**

Over the last two decades, globalization has become a controversial and widely-debated concept. The failure to achieve a clear definition of the concept is partly due to the scientific process whereby various researchers have different views on globalization, due in part to their diverse scientific backgrounds ranging from politics to sociology and from management to finance and economics. Globalization can be defined as “a multidimensional set of social processes that create, multiply, stretch and intensify worldwide social interdependencies and exchanges while at the same time fostering in people a growing awareness of deepening connections between the local and the distant” (Steger 2004). As a controversial development, globalization is seen as an economic threat by some and an economic opportunity by others (Bauman 2000; Watson 2002). In part, this also reflects the fact that there are winners and losers in the globalization game. Among the winners are multi-national corporations and consumers, to the extent that globalization improves efficiency, reduces prices, and improves consumer choice. Among the losers are entrenched local political and economic interests and high wage, low-skilled workers in protected industries.

On the one hand, opponents of globalization question the benefits of financial liberalization and the integration of the global capital and currency markets (Jomo and Shyamala 2001). Skeptics denounce the world governance of international agencies, like the World Bank or the World Trade Organization (WTO) for “usurping power” from states and local governments (George and Sabelli 1994; Scholte 2000). Other critics stress the increased power of multinationals, which are said to “rule the world” (Barnet and Cavanagh 1994). For critics, the term globalization will maintain its polemic power, much as “capitalism” or “imperialism” has done (Osterhammel and Petersson 2003).

On the other hand, promoters (or globalists) have praised the economic development that can be fostered by globalization in a borderless world (Ohmae 1990; Naisbitt 1994). The globalists believe that globalization is a real and significant historical development, leading to more economic well-being (Held, et al. 1999; Schirato and Webb 2003). Indeed, continuous improvement in financial technologies, aided by the expansion of low cost communication and widespread deregulation has driven finance to become increasingly international in scope (Litan 2001). It is clear that financial intermediation on a global scale has increased the available capital stock and has enabled investors to allocate capital efficiently at the world level. Empirical evidence confirms that the level of financial development is highly correlated with economic growth (Litan 2001).

The various insurance markets analyzed in the book have some important global similarities, such as deregulation, intensification of competition, generally rapid growth in insurance sales, emergence of new distribution channels, and the

convergence of insurance, banking, and other formerly separate segments of the financial services industry. However, as the chapters in this book make clear, there remain many important “local” differences among insurance markets across the world, which makes their analysis both challenging and stimulating.

### **1.4.1 Global Similarities**

Using the word globalization in the insurance sector implies that we assume that there are some key world trends which may be seen at more or less the same level in various countries worldwide. The orthodox view of globalization, whether for globalists or critics, is that the world is becoming more homogeneous. Based on the analysis of various key insurance markets presented in the book as well as our own observations, we can highlight various homogenous trends in the global insurance market, which are discussed in this section.

First, the process of deregulation can be seen in most parts of the world. Significant deregulation at the national and regional levels has occurred in Europe, Japan, and the United States. This deregulation has facilitated the integration of previously fragmented segments of the financial services market, primarily insurance, banking, and securities dealing and underwriting. The European Union’s banking and insurance directives, implemented during the 1980s and 1990s, have the objective of creating a single European financial services market. The directives have led to widespread consolidation in the financial services markets in Europe, with large numbers of intra-sector and cross-sector mergers and acquisitions. The E.U. directives also deregulated insurance markets, with the exception of solvency regulation, which is carried out by each insurer’s home country. This has meant the introduction of true price competition in European insurance markets, where prices were previously strictly regulated at the national level.

Similarly, in Japan, the “Big Bang” financial reforms of the late-1990s aimed to make the Tokyo financial market comparable in scale and in the variety and sophistication of financial products to markets in London, New York, and continental Europe (Dekle 1998; Hoshi and Patrick 2000). Among the reforms primarily affecting the insurance industry was the elimination of the ban on financial holding companies, which can now own firms dealing in various types of financial services, including insurance. The reforms also eliminated restrictions that prevented financial services firms from competing in each other’s markets, such that banks, life insurers, and property-casualty insurers can now offer financial products other than their traditional offerings. The reforms are expected to lead to more competition in financial markets, although research on the effects on insurance markets has so far been limited.

In the United States, significant deregulation of the insurance industry has not taken place during the past twenty years. However, the price, product, and geographical regulations affecting U.S. insurers were much less onerous historically than those affecting banks. Bank deregulation in the U.S. has significantly affected the insurance industry, however. Beginning in the 1980s, banks were permitted to offer specific types of insurance, including life insurance and annuities. Banks had previously been excluded from the insurance markets by the National Banking Act of 1916 and the Glass-Steagall Act of 1933. As a result of this deregulation, banks

have captured a significant share of the annuity market (Cummins and Wei 2005). The passage of the Financial Services Modernization Act of 1999 (the Gramm-Leach-Bliley Act) removed most of the remaining barriers that restricted competition across sectors of the financial services industry and allowed the creation of financial holding companies (FHCs), which can engage in bank and non-bank financial activities through subsidiaries. Although there has so far been minimal merger and acquisition activity between the banking and insurance industries, banks and insurers compete intensively in the sale of annuities, life insurance, and mutual funds at the retail level and in pension fund and asset management at the wholesale level. The U.S. has long been a hospitable environment for foreign insurers to enter the market, primarily through acquisitions of U.S. insurance companies; and major global financial services firms have made major inroads in the U.S., particularly in the market for annuities (Cummins, Eckles, and Zi 2005).

A second major trend is that various supranational agencies, including the World Bank, the Inter-American Development Bank, and the World Trade Organization (WTO), have been key promoters of globalization throughout the world, with a particularly significant impact in Asia. For example, with China's entry into the WTO in 2001, the Chinese government made significant commitments with respect to liberalizing the insurance sector and thus led China's insurance industry into a completely new stage of development. The current stage is characterized by an overall opening of the market instead of the previously limited and restricted opening. The changes have meant that it is now much easier for global financial firms to enter the Chinese insurance market. Thus, foreign firms have begun to compete intensively in China. Although the competition currently is mostly in terms of joint ventures, China's WTO commitments will make it even easier for foreign firms to enter the market in the coming years. In addition to the developments in China, various international bodies such as the World Bank have influenced insurance and financial markets in South and East Asia, with significant interventions triggered by the Asian crisis in 1991.

As a third major trend, many countries which previously relied on government insurance companies and programs now have private insurance companies as dominant economic actors. Many such countries have witnessed major waves of privatization. The number of government-owned insurance companies is becoming smaller and some countries have almost entirely eliminated government-run insurance companies. This trend is present not only true for some developed countries such as France but also for former Eastern-block countries and emerging economies. For example, India, a long-time protected insurance market, has authorized the development of the private sector since 2000. China has also seen the gradual dismantling of the former government insurance monopoly.

Fourth, the global insurance markets have seen an increased sophistication in insurance technology, whereby new products are launched much more rapidly than in the past. New technologies have also facilitated the introduction of more sophisticated insurance products such as universal life insurance, variable life insurance and annuities, and guaranteed income and guaranteed benefit features for variable insurance products. Alternative risk transfer products are also examples of the insurance sector's ability to develop and implement worldwide innovation. These changes are naturally facilitated by advances in computer and communication

technologies as well as theoretical and empirical modeling advances in financial economics.

Fifth, insurance markets become more international, with formerly national insurers increasing their activities abroad and foreign insurers increasing their market share in other markets. The past twenty years has witnessed the development of truly global financial services firms such as ING, AXA, and Allianz. Globalization enables international insurance companies to diversify their risk in a broader range of countries. For example, in the Netherlands more than 1,050 foreign insurers operated in 2003 with more than 60% of them not supervised by the Dutch authority. Thus, one important common trend is that we can expect to observe more entry by foreign firms into both developed and developing markets worldwide, particularly if regulatory barriers to entry continue to fall.

Sixth, the insurance sector is structurally global through the mechanism of reinsurance. Indeed, risks are spread around the world by various key reinsurers. Each major claim affecting reinsurance markets, such as the September 11, 2001 World Trade Center (WTC) attack or Hurricane Katerina in 2005, has an effect on the global insurance market which is cushioned by reinsurance payments. Although the private insurance market has not recovered its ability to provide coverage against terrorism follow the WTC attack (Cummins 2006), private reinsurance markets have proven to be resilient following natural catastrophes. Although reinsurance prices rise and supply contracts following an event, new capital usually enters the industry and prices eventually decline. However, reinsurers have begun to explore securitization solutions such as CAT bonds to provide additional capacity for the largest natural disasters.

Seventh, many countries already face (or forecast very soon) the need for pension and health insurance reforms. Health systems are in need of huge transformations, whether in developed countries where the systems are too expensive or in developing countries where the health services are insufficient. Furthermore, many countries have to reform their pension systems since the actual pension systems are insufficient to provide future generations the promised benefits. Because many government social security programs have been based on pay-as-you-go funding schemes, the decrease in the ratio of working age to retired persons has been forcing many countries to consider scaling back their public pension systems. This provides an opportunity for financial firms to exploit the growing demand for supplemental retirement programs funded by life insurance and annuities and should provide growth opportunities for insurers in many markets. Of course, local contingencies play an important role here in terms of widely varying tax incentives for private savings through insurance and annuities.

Eighth, the continuing evolution of insurance product distribution systems is another commonality among many national insurance markets, although as discussed below and throughout the book, this does not mean that distribution channels are similar everywhere. Particularly in the consumer lines of insurance, direct marketing and bancassurance are likely to play increasingly important roles. The principal advantage of direct and bank distribution of insurance is that the marketing costs tend to be lower than for traditional insurance distribution channels such as brokers and agents. The result is that direct and bancassurance marketers can offer lower prices and higher rates of investment return on savings-based products, giving them an important competitive advantage. In the commercial property-casualty lines, it is

likely that intermediaries such as brokers and agents will continue to play an important role in helping commercial buyers access the increasingly complex and global markets for risk transfer.

### **1.4.2 Local Differences**

Taking into account the previous global similarities, Marshall McLuhan's (1962) prediction in the mid-1960s that world would become a "global village" seems for many countries to be happening as a result of globalization. However, even if globalization seems to make the world a more homogeneous or singular place, there are still many local particularities. Indeed, the convergence of insurance markets worldwide and the convergence between insurance and other segments of the financial market are far from complete and many differences among countries continue to exist.

First, a sign of the major differences between the various insurance markets is the semantic heterogeneity of the technical insurance vocabulary. Considering the current scope of international insurance activities, a rapid assumption could be that the English insurance vocabulary is quite similar worldwide. Indeed, the word "premium" is used everywhere. However, there are some significant originalities. For example, "long-term insurance" is used in South Africa and the U.K. as a synonym for life insurance, but this terminology is largely unknown in many other countries. Likewise, to refer collectively to lines of insurance other than life insurance, the terms "property-casualty insurance" or "property-liability insurance" are commonly used in the U.S., the term "general insurance" is used in the U.K. and some former British Commonwealth countries, and the term "non-life insurance" is used in many other countries. Insurance of motor vehicles is called "automobile insurance" in some countries and "motor insurance" or "car insurance" in others. The term "mutual" is used consistently in most countries to refer to an insurance company owned by its policyholders, but there are some prominent exceptions such as France, where there are various types of mutuals that need to be distinguished. Facing such important variation in words and their meanings, we asked our colleagues contributing to this book to use the most common English words in their country and to add at the end of their chapter a lexicon defining them.

Second, each nation state has its own specific regulatory framework for the insurance industry and financial services in general. Although deregulatory efforts such as those in the E.U. have resulted in a greater degree of homogeneity, regulatory differences among countries remain, even within the E.U. In addition, solvency regulations currently vary widely, even among developed nations and there is currently a movement underway by the Basel Committee ("Solvency II") to harmonize solvency regulation. Generally accepted accounting principles (GAAP) also differ significantly across countries. As a final example of regulatory differences, although automobile liability insurance is compulsory in most developed countries, some countries such as Brazil and Thailand have many uninsured drivers.

Third, the role of electronic commerce (e-commerce) in the insurance industry varies widely among countries. Its importance varies according to the likelihood of access to a computer and the Internet (Venard 1999). For example, in many developing countries, a large share of the population has no access to telephones or

bank accounts. Therefore, e-commerce has long way to go. Even in developed nations, insurance still tends to be sold mostly through contacts with insurance agents or bank employees, with the Internet primarily used to provide product information or price quotes. An exception to this rule is the increasing importance of direct insurance marketing in several countries, particularly the U.K. and the U.S.

Fourth, countries have very different dominant insurance distribution channels. Brokers are very important in insurance distribution in the U.K., but have limited influence in France. The distribution of insurance products through bank channels remains marginal in many countries such as Germany but is very developed in others, such as France and Spain.

Fifth, all countries have their own political systems, and this diversity has an impact on the insurance industry. For example, at the end of apartheid in South Africa in 1994, a Black Economic Empowerment program was set up. Its main idea was to transfer equity ownership in firms throughout the economy to the black community. The Financial Sector Charter requires that 25% of equity of financial companies be transferred to blacks, since the former segregation implied that most country assets were in the hands of the white minority. Political instability and government corruption in many developing nations hinders the development of the insurance industry, as well as impeding economic growth in general. Radical changes in government fiscal policies, such as those observed in Brazil over the past twenty-five years, have had profound effects on the development of insurance and financial markets.

Sixth, although many developed nations are confronting problems caused by aging populations, it is important to realize that demographic trends are very heterogeneous around the world. Huge variations in population dynamics exist between developed and developing countries, with most developing nations having age distributions that are generally much younger than in the developed world. The consequences of demographics are especially significant for the development of the pension market (and, therefore, the life insurance branch) and the health insurance market. However, significant demographic differences exist even within the developed countries. In Europe, Ireland and France are able to have significant growth in their population, while Italy and Germany are already witnessing a decline of their population. Without taking into account migration, these intra-European differences are even more significant.

Seventh, the portfolio of insurance products in various countries shows important variations. Some countries have a buoyant life insurance market, reaching sometimes two-thirds of the insurance market share. Other markets still have automobile insurance as their main product. Some countries have a low insurance penetration while others are witnessing more important penetration, especially in developed countries. Tax laws, which differ significantly across countries, are critically important in the development of the life insurance market in particular. Demand for life insurance and annuities as savings, investment, and pension products is heavily dependent upon tax incentives provided by governments. Countries also differ significantly in their mechanisms for financing catastrophic risk, with countries like France and Spain having mandatory coverage backed by government reinsurance, while catastrophe financing is more ad hoc in many other countries (Cummins 2006).

Both global and local trends imply that world insurance markets are facing common worldwide trends and at the same time showing an important diversity. Both elements are explained in the stimulating and challenging work done by our research team. We hope that our readers will share this intellectual stimulation as they follow us in the discovery of the richness and diversity of international insurance markets. We also hope that this book will contribute to a broader and deeper understanding of worldwide insurance markets and the forces that will reshape these markets in the coming decades.

## 1.5 ACKNOWLEDGEMENTS

The editors are grateful to the authors of the chapters appearing in the book for their insights on insurance markets and their tireless efforts to produce high quality content for the book. We also benefited greatly from administrative assistance from Annick Bertolotti, Heather Calvert, Mélinda Schleder, and Claire Gernigon. Copy editing for a multi-authored book is extensive and was very capably carried out by Leandra DeSilva, Kirsten Ellis, Heather Harris, and Caryl Knutsen.

The authors are grateful for financial support for this project from the Alfred P. Sloan Foundation's Industry Studies Program. We also acknowledge financial support from the S.S. Huebner Foundation for Insurance Education of the University of Pennsylvania. Both financial and infrastructure support were provided by Audencia Nantes School of Management and the Wharton School of the University of Pennsylvania.

## 1.6 REFERENCES

- Barnet, J. Richard and John Cavanagh, 1994, *Global Dreams: Imperial Corporations and the New World Order* (New York: Simon & Schuster).
- Bauman, Zygmunt, 2000, *Globalization* (New York: Columbia University Press).
- Cummins, J. David, 2006, "Should the Government Provide Insurance for Catastrophes," *The Federal Reserve Bank of St. Louis Review*, forthcoming.
- \_\_\_\_\_, David Eckles, and Hongmin Zi, 2005, "Exporting Best Practices: Are Foreign-Owned Insurers More Efficient in the U.S. Life Insurance Market?" Working Paper, The Wharton School, University of Pennsylvania.
- \_\_\_\_\_ and Ran Wei, 2005, "Convergence and Contagion in the U.S. Banking and Insurance Industries: Evidence from Operational Risk Events," Working Paper, The Wharton School, University of Pennsylvania.
- Dekle, Robert, 1998, "The Japanese 'Big Bang' Financial Reforms and Market Implications," *Asian Economic Review* 9: 237–249.
- George, Susan and Fabrizio Sabelli, 1994, *Faith and Credit: The World Bank's Secular Empire* (New York: Westview Press).

- Held, David, Anthony McGrew, David Goldblatt, and Jonathan Perraton, 1999, *Global Transformations: Politics, Economics and Culture* (Stanford, CA: Stanford University Press).
- Hoshi, Takeo and Hugh Patrick, 2000, *Crisis and Change in the Japanese Financial System* (Boston: Kluwer Academic Publishers).
- Jomo, Kwame Sundaram and Nagaraj Shyamala, 2001, *Globalization versus Development* (New York: Palgrave Macmillan).
- Litan, Robert E., 2001, "Economics: Global Finance," in Peter J. Simmons and Chantal de Jonge Oudraat, eds., *Managing Global Issues: Lessons Learned* (Washington, DC: Carnegie Endowment for International Peace).
- McLuhan, Marshall, 1962, *The Gutenberg Galaxy: The Making of Typographic Man* (Toronto: University of Toronto Press).
- Naisbitt, John, 1994, *Global Paradox* (New York: William Morrow and Company).
- Ohmae, Kenichi, 1990, *The Borderless World: Power and Strategy in the Interlinked Economy* (New York: HarperCollins).
- Osterhammel, Jürgen, and Niels Petersson, 2003, *Globalization. A Short History* (Princeton, NJ: Princeton University Press).
- Schirato, Tony and Jen Webb, 2003, *Understanding Globalization* (London: Sage Publications).
- Scholte, Jan Aart, 2000, *Globalization. A Critical Introduction* (New York: Palgrave Macmillan).
- Simmons, Peter J. and Chantal de Jonge Oudraat, 2001, *Managing Global Issues: Lessons Learned* (Washington, DC: Carnegie Endowment for International Peace).
- Steger, Manfred B., 2004, *Rethinking Globalism* (Lanham, MD: Rowman & Littlefield).
- Swiss Re, 2005, "World Insurance in 2004: Growing Premiums and Stronger Balance Sheets," *Sigma*, No. 2 (Zurich, Switzerland).
- Venard, Bertrand, 1999, "The Influence of the Information Highway on the Insurance Management," *Geneva Papers of Risks and Insurance, Issues and Practice* 24: 189–202.
- Watson, Iain, 2002, *Rethinking the Politics of Globalization* (Aldershot, Hampshire, U.K.: Ashgate).