American Insurance Association

TESTIMONY
OF
PETER O'CONNOR
EXECUTIVE VICE PRESIDENT OF ACE INA
ON BEHALF OF
THE AMERICAN INSURANCE ASSOCIATION
ON TRADE IN FINANCIAL SERVICES-
CURRENT ISSUES AND FUTURE DEVELOPMENTS
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE OF THE HOUSE COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

JUNE 26, 2001

1130 Connecticut Avenue, NW, Suite 1000 ▼ Washington, DC 20036 ▼ Phone: 202/828-7100 ▼ Fax: 202/293-1219 ▼ www.aiadc.org

Thank you, Mr. Chairman, and other distinguished members of the International Monetary Policy and Trade Subcommittee, for holding this important hearing today.

My name is Peter O'Connor, and I am Executive Vice President of ACE INA. ACE INA is one of the world's largest providers of property and casualty insurance to a broad range of local and multinational clients. Our history dates back to 1792 with the establishment of the Insurance Company of North America (INA), which ACE acquired from Cigna Corporation in July 1999. INA was the first stock insurance company in North America, the first company to write insurance in China in 1897, and one of the first to establish an international department for business on all continents in 1946. Today's INA has offices in 50 countries, spanning six continents. ACE INA employs 1,400 people in Pennsylvania, 4,500 people in the U.S., and over 7,000 people around the world. ACE INA is one of the world's few truly global insurers.

I am providing testimony today on behalf of the American Insurance Association, which represents over 370 major U.S. property-casualty insurers. AIA has an active International Committee that lobbies for and promotes public policy positions both here in the U.S. and abroad, advocating trade competition, open markets and effective insurance regulation around the world. I am currently the vice chairman of this committee.

When most people think of international trade, they seldom think of financial services, such as insurance. They focus more on manufacturing products, agriculture, and goods that have a greater historical trade context. Indeed, many of our country's great trade successes and challenges relate to these products.

The reality, however, is that trade in financial services has grown rapidly over the last decade and is now a major component of U.S. trade policy. And, insurance has been a strong member of that increasingly-robust trade sector. In fact, U.S. financial services exports last year stood at $17.8 billion, a 30 percent increase from 1999. Subsidiaries of U.S. insurers sold over $46 billion of products overseas in 1998.

THE IMPORTANCE OF INSURANCE IN THE GLOBAL ECONOMY

Insurance is an integral part of any economy. Insurance takes on different appearances and is provided in many ways throughout the world, but its functions and critical importance to any economy and to the overall financial infrastructure of the world cannot be overstated.

Liberalization of trade in insurance, combined with the development of open and transparent regulatory regimes, is critical to the growth of U.S. insurers and to the health of the overall U.S. insurance industry. But more importantly, it is critical to the ability of emerging and transitional economies to grow and develop their economies and provide social safety-net protections to their citizens.

Insurance is important to any economy for a number of reasons, but I will cite only five:

- **<u>First, insurance is an essential and vital component of a country's financial infrastructure</u>.**

Insurance companies can be major sources of national income. In collecting relatively small premiums from their many thousands of insured, insurance companies are able to invest large sums locally. And unlike banks, whose financing is often short-term oriented, many insurers provide long-term financing which is important to sustained economic development. This, in turn, deepens and broadens the domestic financial services marketplace, which generates higher savings rates and therefore greater economic development.

- **<u>Second, insurance supports beneficial increases in overall trade and investment and creates jobs, both in the U.S. and in the emerging market</u>.**

American companies, including small- and medium-sized enterprises, are more likely to export to, and enter, foreign markets if they have access to the specialized products and services that they require and U.S. insurers provide. Increased sale of U.S. products overseas translates to more jobs being created back home to supply the overseas demand. High-tech, energy, and infrastructure sectors especially need the products and services of U.S. insurers. These types of sophisticated coverage and related services are essential for effective and efficient risk management in emerging and transitional markets.

- **<u>Third, insurance strengthens social and economic policies that address risks threatening businesses, workers and their families, and the environment</u>.**

Open, competitive insurance markets give emerging and transitional countries the means to develop social and economic policies that mitigate risks threatening businesses (concerns for security of property, possible liability, and worker safety), workers and their families (health care needs, disability and retirement plans), and the environment. Insurance promotes financial stability by allowing large and small businesses to operate with less volatility and risk of failure. Unlike most other industries, insurance causes almost no adverse environmental impact. Together, these factors provide greater overall financial, and therefore, social stability -- critical public policy areas that, in the future, will become more prominent issues in developing countries as incomes rise and political freedoms expand. Insurers can materially aid this process.

- **<u>Fourth, insurance can substitute for government security programs and support privatization processes</u>.**

Many countries face large fiscal constraints and deficits, partly because large, state-owned enterprise systems are a drag on the economy and increasingly unfeasible to run in today’s economic conditions. This applies both to state-owned enterprises that support government social safety net programs and the privatization of state companies where the new public corporations must learn to compete in an era of global competition.

- **<u>Fifth, foreign insurers transfer technological and managerial expertise</u>.**

Sustained economic development requires application of state-of-the-art technical, managerial, and marketing techniques, including development of adequate insurance supervisory systems. U.S. insurers bring all these skills into foreign markets. As more insurers enter foreign markets, the greater the knowledge transfers. Demand for actuaries, underwriters, and other insurance personnel is increasing, resulting in increased wages, and therefore increased standard of living. U.S. insurers operating in developing markets offer high-quality and higher-paying jobs than can be found in the domestic industry. Since many of these markets are seeing a competitive insurance sector for the first time, they need input on effective rules and regulation governing insurance, which U.S. insurers can provide.

U.S. INSURANCE ACTIVITY IN GLOBAL MARKETS

As the world community, particularly its emerging markets, has acknowledged the important role that a healthy and competitive insurance market plays in its development, I am happy to report that U.S. insurance company investment and sales outside our country has increased substantially over the last decade. In fact, according to the U.S. Department of Commerce, over a nine-year period from 1990 to 1998, U.S. majority-owned company insurance sales overseas grew by 114 percent. Additionally, U.S. cross-border export of insurance products, which is limited only to a small number of products (primarily reinsurance and marine insurance), has increased on average by nearly 7 percent since 1994.

Fortunately, this increase in U.S. insurance investment throughout the world is expected to continue to significantly grow for a number of reasons, but primarily for three reasons. First, as many countries reform their economies and encourage foreign investment, the need for more and diverse insurance products will grow and require foreign insurance investment and expertise. This is particularly true in countries where state-run enterprises are being replaced by private enterprises, and private insurance companies are being formed to compete with former state-owned monopolies, such as in China and India. Second, as U.S. companies in general participate in the further expansion of world trade, U.S. insurers will often follow these customers and underwrite their clients’ risks abroad. Third, U.S. and western European insurance markets are largely saturated, necessitating companies to increasingly look to emerging markets to grow and expand their business to remain competitive in a global marketplace. For example, according to Swiss Re, the level of insurance penetration (insurance premiums as a percentage of GDP) in 1999 was significantly higher among G-7 and OECD countries (9.01 percent and 8.61 percent, respectively) than developing countries, such as Brazil (2.01 percent), China (1.63 percent), India (1.93 percent), Egypt (0.65 percent), and Vietnam (0.58 percent).

KEY TRADE POLICY PRIORITIES FOR U.S. INSURERS

The insurance industry has been increasingly active in a number of public policy areas to promote expanded international trade. U.S. insurers strongly support the efforts of U.S. trade officials and many Members of Congress to expand trade in both the multilateral and bilateral arenas, but our focus in both realms is clear: greater market access for our products, expertise and capital, and greater regulatory transparency for our businesses.

On the multilateral front, the U.S. insurance industry strongly supports the Bush Administration's efforts to initiate a broad trade round within the World Trade Organization beginning at its ministerial in Doha, Qatar in November. While negotiations in services, including insurance, have already commenced as part of the WTO's embedded program, we know that the success of those negotiations are largely dependent on the success of a more comprehensive round. The 1997 General Agreement on Trades in Services (GATS) provided a major boost to services exports and foreign insurance investment and created a framework for expanding liberalization in the future. While the 1997 commitments are valuable, U.S. insurers are ready to build on those commitments and work with U.S. negotiators to gain further access to those markets and improve regulatory conditions there through a new round.

Specifically, the U.S. insurance industry, including companies and trade associations representing its property and casualty, life, reinsurance, and brokerage sectors, have rallied behind a proposed "model schedule" that urges countries to make significant commitments as part of the current WTO services negotiations in the areas of transparency in insurance rule-making and in regulation itself. While many countries made historic market access commitments in the 1997 GATS, many regulatory or regulatory system hurdles remain in different countries that effectively act as barriers to competition for U.S. insurance companies. The industry's transparency objectives seek commitments in the areas of adequate public comment periods, reasonable timetables for the consideration of license applications, sufficient and public explanations for rulemaking actions, and other basic transparency requirements that we too often take for granted in the U.S. but are surprisingly sparse in overseas markets. In the area of direct regulation overseas, U.S. insurers are seeking the abolition of government insurance monopolies, a guaranteed majority form of ownership, full national treatment for foreign insurers to ensure that they have equal treatment under the law relative to domestic insurers, and other equitable regulatory requirements that will permit them to compete on new product development and pricing.

On the bilateral front, the U.S. insurance industry has been strongly supportive of U.S. trade agreements to expand trade in all areas, including insurance, with countries that welcome foreign investment and trade. We are particularly supportive of the U.S. bilateral trade agreement with Vietnam and have lobbied for its passage in the

Congress. Furthermore, we are encouraged by ongoing free trade negotiations with Chile and Singapore that we believe will result in new market-opening commitments from those governments for U.S. insurance products.

The insurance industry supports ongoing trade negotiations with other countries, both developed and undeveloped, as well, including the European Union, Japan and India. Each of these countries and regions has its own barriers to competition that we are trying to remedy through ongoing negotiations, and we work closely with our USTR negotiators in this regard. Certain barriers are severe enough to drastically limit foreign investment, such as India's restriction on foreigners owning more than 26 percent equity in joint ventures and Brazil's failure to privatize its state-run reinsurance monopoly and open its reinsurance market to competition. Others have tremendous historical and political ramifications, such as the Postal Service of Japan's significant market share in the domestic life insurance industry through its underwriting and distribution of over 20 separate insurance products. This heavy government involvement in the sale and distribution of private insurance products discourages private industry participation in the market, both foreign and domestic, and greatly limits its competitiveness.

Our recent market focus has been on developing countries that have long maintained less developed insurance systems but now appear to be committed to creating modern and competitive insurance sectors, including China, India and Vietnam. Based on the market-opening commitments China made in its 1999 accession agreement with the U.S. (and reaffirmed earlier this month), the industry was strongly supportive of Permanent Normal Trade Relations (PNTR) for China last year. We remain committed to Normal Trade Relations (NTR) for China this year when Congress votes on that measure to maintain its current trade status until China becomes a full WTO member. China's accession to the WTO will not fully open China's insurance market to U.S. insurers, but it will open it significantly and allow many U.S. companies the opportunity to offer insurance products there for the first time.

Finally, AIA and its member companies, as well as others in the insurance industry, strongly support the enactment of Trade Promotion Authority (TPA). We believe the stronger the mandate the President has to enter into trade agreements, the more likely it is the U.S. will be able to negotiate agreements that provide greater benefits to the U.S. economy and consumers than would otherwise be the case.

All of these separate, ongoing trade issues involving many countries around the world ultimately address different market barriers and economic circumstances that are unique in each country, but our goal with each issue is the same: to further open each market so that U.S. insurers can fairly compete there.

CONCLUSION

Before I conclude, Mr. Chairman, I wanted to acknowledge the outstanding work of the U.S. Trade Representative's office and the Department of Commerce in promoting U.S. insurance exports and helping U.S. insurers gain greater market access throughout the world. Both agencies have been effective partners in our efforts to expand overseas and develop effective laws and regulations in these markets. The DOC's Office of Finance, which organizes important U.S. insurance technical assistance missions to key markets, including Vietnam, India and China, have helped us tremendously in establishing excellent dialogues with government officials there and opportunities to provide constructive input on improving the regulatory systems of many countries. Our USTR negotiators have worked diligently with us to understand and effectively advocate our key trade priorities that have resulted in meaningful market opportunities for our companies and consumers worldwide. We truly value our excellent relationships with both agencies.

Mr. Chairman, a healthy and productive global insurance infrastructure is vital to a prosperous, innovative and growing global economy. AIA, ACE INA and others in the insurance industry have been proud to play a role in expanding insurance sales abroad and, in the process, benefiting consumers, economies, and global living standards. We are excited about the new opportunities that we believe will further open markets to U.S. insurance products and look forward to working with you and all Members of the Subcommittee on the major policy and trade challenges of this year. Again, we appreciate having the opportunity to testify before you today to provide a brief glimpse of the U.S. insurance industry's trade-related activities and would be happy to answer any questions you may have.