50 YEARS OF THE OECD

INSURANCE AND PRIVATE PENSIONS COMMITTEE
SPECIAL ANNIVERSARY MEETING

Special anniversary roundtable on the contribution of insurance and pensions to growth

9 June 2011
Mexico City, Mexico

The Role of Insurance in Facilitating Globalisation & International Trade
Jose Ribeiro, Lloyd’s
OECD 50th anniversary Roundtable

The Role of Insurance in facilitating Globalisation & International Trade

Jose Ribeiro, Director, International Markets
June 2011

Insurance...
Why, Where & How
Why do we need Insurance?

“...a sound national insurance and reinsurance market is an essential characteristic of economic growth.”

✓ Insurance helps to absorb risks, mobilize savings and channel investments (In the OECD insurance companies and pension funds hold assets of over USD 40 trillion)

✓ Insurance has demonstrated resilience in withstanding large losses and helping economies hit by disaster get back on their feet.

✓ Insurance can play a pivotal role in helping developing countries to catch up

Why do we need Insurance?

Insurance is a key to market economies insuring business assets against losses and protecting businesses them against potential liabilities.

✓ Protection, not speculation, lies at the heart of what insurance is about

✓ Sophisticated modelling and ERM techniques can help us manage, price and mitigate the impact of new risks

✓ Insurance facilitates the allocation of resources across time and regions in a world marked by risk
Where Do people buy insurance today?

North America
- 41% of global share of premiums
- PER CAPITA: US$ 2,062
- PENETRATION: 4.5%

Europe
- 38% of global share of premiums
- PER CAPITA: US$ 750
- PENETRATION: 3.1%

Latin America
- 10% of global share of premiums
- PER CAPITA: US$ 2,062
- PENETRATION: 4.5%

Asia
- 15% of global share of premiums
- PER CAPITA: US$ 63
- PENETRATION: 1.6%

Africa
- 1% of global share of premiums
- PER CAPITA: US$ 117
- PENETRATION: 1.7%

Oceania
- 2% of global share of premiums
- PER CAPITA: US$ 17
- PENETRATION: 1.1%

Size of bubble = Size of non-life direct premiums in 2009; % figure shows total global share of premiums.


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As economies mature their needs change

**Business Environment**

- Increasing income / complexity & maturity of economy
- Young population
- Emergence of a middle-income class
- New start-ups
- Reform of old (state-owned) companies
- Increasing home/car ownership
- Rapid industrialisation
- FDI/capital inflow
- FDI capital outflow

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- Ageing population
- US
- Singapore
- XOL

**Culture / Buying Behaviour / Market Dynamics / Regulation**

- Corporate (re)insurance
- Captives
- Credit & Surety
- Increasing liability business
- Wealth management

**Insurance Environment**

- Savings products
- Protection products
- Protection of start-ups
- Increasing liability business
- Wealth management

- Focus on commercial lines
- Protection of start-ups
- Increasing liability business
- Wealth management

How Does Lloyd’s Fit into this?

Lloyd’s coffee house first appeared in tower street sometime in the 1680s

A facilitator of Global Trade since 1688

1688 ships and cargos underwritten
Insurance…
also helps economies in different ways
...improves Risk Management

KEY BENEFITS

Improves Risk Management via risk transfer and risk mitigation. At the same time it incentivizes risk prevention.

Industry Examples

- **Incentives** (in the form of discounts on premiums) to install quality locking systems or lead healthy lifestyles
- Exert pressure on manufacturers (i.e. cars) to influence vehicle design to **improve safety & security**
- High standards of **building codes** in Chile and Japan have contributed to lower levels of fatalities

LLOYDS

- Careful management of **catastrophe risk** is imperative at Lloyd's

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...Encourages Investment & Innovation

KEY BENEFITS

Insurance encourages innovation and investment in entrepreneurial activity, facilitating trade in goods and services.

Industry Examples

- **Products** that help mitigate risks* to help **release entrepreneurial energy** and initiatives to allow economic agents (private & public) to create and develop activities without feeling paralysed by liabilities and their potential consequences. (*Currency Movements, Expropriation, Export bans etc.)

LLOYDS

- Lloyd's works with the World Bank's **Mutilateral Investment Guarantee Agency** to provide facultative reinsurance cover

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...Helps dealing with shocks

KEY BENEFITS

*Insurance promotes financial stability at a country, corporate and personal level.*

Industry Examples

- Chile Earthquake 2010:
  - 7th largest earthquake recorded in history
  - 523 deaths and more than US$ 30bn in economic losses
  - Insured loss of around US$ 8bn

LLOYDS

- Lloyd’s sent two delegations to the quake-struck region in 2010
- Lloyd’s expects its exposure to remain around US$1.4bn (net)

Appendix – Disclaimer

Disclaimer

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