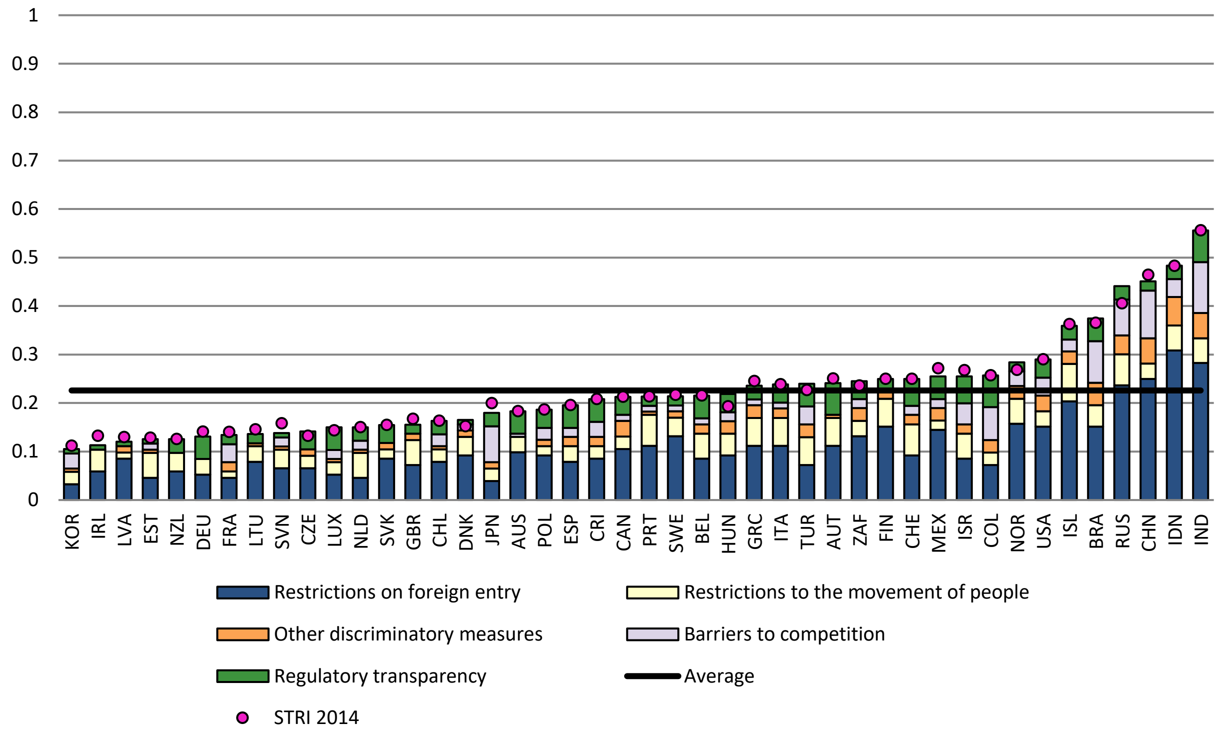
STRI Sector Brief: Insurance

This note presents the Services Trade Restrictiveness Indices (STRIs) for the 36 OECD countries and Brazil, the People's Republic of China, Colombia, Costa Rica, India, Indonesia, Malaysia, the Russian Federation and South Africa for insurance services in 2018.

Insurance services (ISIC Rev 4 code 651 and 652) comprise life insurance, property and casualty insurance, reinsurance and auxiliary services. Private health insurance and private pensions are not covered. Major exporters are the United States, the United Kingdom and Ireland. Efficient insurance services are one of the backbones of dynamic economies, providing firms with risk management tools and channelling savings towards long-term investment.

STRI by policy area: Insurance services (2018)



Note: The STRI indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the STRI regulatory database which records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account.

The 2018 scores in the insurance sector range between 0.12 and 0.55 with an average of 0.23. The distribution according to restrictiveness is slightly skewed towards the low end, as there are 28 countries below and 17 countries above the average.

The measures in the STRI database are organised under five policy areas as indicated in the chart. The results are mainly driven by three policy areas: *Restrictions on foreign entry, Barriers to competition* and *Regulatory transparency*. This reflects the special characteristics of the sector as well as the policy environment in which it operates. As the insurance sector plays a significant role in every country's economic and financial systems, restricting entry and competition has sometimes been used as a means for authorities to retain control over its operations in the absence of effective prudential regulation. Commercial establishment through subsidiaries, branches and acquisitions is the primary mode of entry into foreign markets for insurance companies. However large-scale commercial transactions, reinsurance and marine, aviation and transport insurance are more commonly conducted cross-border.

Restrictions on foreign entry feature most prominently in the indices. Only four out of the 45 countries limit the foreign equity share in local insurance companies, but 18 countries restrict the establishment of branches of foreign insurers, 14 countries impose more stringent requirements to grant a license to foreign-owned insurers than domestic ones, and five countries restrict cross-border bank mergers and acquisitions. In most cases insurance carriers must to be locally established in order to provide a full range of services to residents: only three countries allow primary non-life insurance to be sold cross-border, and four countries for life insurance. However, 12 countries allow non-life insurance to be placed abroad when the risk cannot be covered in the country. The provision of reinsurance services on a cross-border basis is allowed without restrictions in 25 out of the 45 countries. Lastly, 17 countries require at least one member of an insurance carrier's Board of Directors to be a national or permanent resident, among which ten countries impose this condition on a majority of the Board.

Barriers to competition also contribute to the scores of the countries with the highest index values. Product-level regulations, including price restrictions and prior approval requirements for individual insurance products, are significant drivers of this result. Another common issue is the lack of independence of the regulatory and supervisory authorities. In 28 countries full operational, management and budget independence from the government is not guaranteed. Government ownership is also widely observed in the sector. In 18 countries, one of the largest life or non-life insurers is state-owned.

The *Regulatory transparency* policy area builds on information from administrative laws and regulations, information from the migration authorities on requirements for obtaining a business visa and the World Bank Doing Business Survey. Regarding transparency in the process of granting licenses, six countries do not mandate the authorities to provide grounds for rejecting an applicant, and seven do not specify a maximum time to decide on an insurer's license application.

Under *Restrictions on the movement of people*, there is no country in the database that does not limit market access for natural persons providing services on a temporary basis as intra-corporate transferees, contractual services suppliers or independent services suppliers. Most countries do not have an established process for recognising the professional qualifications of foreign intermediaries. *Other discriminatory measures* specific to the sector include mandatory cessions to domestic reinsurers or caps on cessions to foreign reinsurers in six countries, discriminatory financial requirements imposed on non-established reinsurers in five countries, and restrictions on writing insurance contracts in foreign currencies in six countries.

Compared to 2014, denoted by the pink dots in the chart, the STRI index is unchanged for 13 countries, 23 have a lower (less restrictive) score, and 9 record a higher value of the STRI index (more restrictive) in 2018. Most of the changes reflect the evolution of general business regulation. India stands out as having implemented significant reforms as the foreign equity limit has been raised from 26% to 49% and foreign reinsurers have been allowed to enter the market through branches. Among other countries that have introduced reforms, South Africa and Mexico have allowed foreign insurers to establish branches; Slovenia has eased the conditions on the establishment of foreign branches; the People's Republic of China has started allowing mutual insurance and has raised the foreign equity threshold to 51%; Indonesia has enhanced compliance with international standards on financial transparency and has repealed restrictions on the setting of insurance premiums; and Ireland has introduced a 6 month time frame to grant or deny insurers' license applications.

It should be noted that insurance is a heavily regulated sector for the purpose of maintaining the stability and soundness of the financial system. Prudential rules and standards are set by national governments and regulators as well as international financial standard-setting bodies. The STRI does not seek to define the scope or nature of what measures would be considered prudential, but aims to record in an objective and comparable manner the state of legal and regulatory impediments faced by foreign insurers.

More information

» Access all of the country notes, sector notes and interactive STRI tools on the OECD website at http://oe.cd/stri
» Read more about services trade policies and their impacts in this publication: [Services Trade Policies and the Global Economy]
» Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org.

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