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Economic Effects of Services Liberalization Confidential Report by World Trade Organization

THE ROLE OF SERVICES IN ECONOMIC DEVELOPMENT

1. While there are many differences in employment and production patterns among countries - reflecting development levels, geographic location or resource endowment - economists have long identified a few common features or trends. These include in particular the strong and, as incomes grow, expanding role of services as a source of economic activity. In the mid-1990s, for example, the services sector's share in GDP amounted to some 40 per cent in Uganda, 50 per cent in Zambia, over 60 per cent in Korea and Brazil, and 80 per cent in the United States.

2. The services sector's expansion has been attributed to demand as well as supply factors. On the one hand, demand for many services is highly income-elastic, i.e. as people grow richer, their consumption of services such as tourism, education and health, expands more rapidly than their demand for manufactures and agricultural products. On the other hand, productivity growth is lower in many services sectors than in manufacturing and modern agriculture, reflecting the fact, among other things, that it is generally more difficult to substitute capital for labour in services production (restaurants, hotels, bus transport, etc.). In turn, this has led prices of many traditional services to increase relatively faster than prices of goods.

3. To a certain degree, the growing share of services in GDP, in particular if measured at current prices, also reflects organisational changes in an economy. On efficiency grounds, manufacturing companies have tended increasingly to outsource services such as design, financing or transport, which they previously provided in-house, and purchase them from specialised suppliers. Reflecting their infrastructural nature, many modern services sectors, including telecommunications, financial services and transport, not only provide final consumer products, but basic production inputs for a wide variety of user industries.

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World Insurance In 1999: Soaring Life insurance Premium

Sigma # 9/2000: Swiss Re

Global premium volume totaled USD 2324 billion in 1999, of which USD 912 billion (39.2%) was attributable to non-life insurance and USD 1412 billion (60.8%) to life business. On a USD basis, nominal growth was 7.3% over the previous year. In local currency and adjusted for national inflation rates, premiums rose over the previous year by 4.5%, with life insurance expanding considerably more (6.9%) than non-life business (+1.2%).

Life insurance premium income registered a stronger increase both over the previous year and over the long-term average trend of the last ten years. Outside Asia, life insurance companies experienced a veritable boom. In the period under review, the increase was far stronger than the increase reported in non-life business and appreciably higher than global economic growth. The boom in life insurance cannot be credited to low interest rates alone. Concern about state pension provision has increasingly proved to be an important growth engine in private life insurance.

Growth in non-life insurance remained weak in 1999 and below the long-term trend. It did, however, recover slightly relative to the previous year. Since 1994 growth in non-life insurance has remained well behind that of overall gross domestic product (GDP). The most important reason for the persistent sideways movement in premium growth was the decline in prices across the globe due to surplus capacity, a further contributory factor being the deregulation in Europe and Japan.

On average over the past twenty years, non life insurance in all regions has risen either in line with or greater than GDP, since the mid-eighties, premium growth in non life insurance has weakened and, since 1994, has been outpaced by GDP growth.

The following specific developments and cyclical factor are just some of the possible explanations for the slowdown in growth:

- In the eighties premium growth was extremely high, which was partly due to the liability crisis in the US. As a consequence, Alternative forms of insurance in commercial insurance have grown in popularity at the expense of traditional insurance.
- The economic and financial crises in Asia, particularly in Japan, have drastically reduced the demand for insurance.

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4. While also rising over time, the services share in foreign trade has been smaller than its share in production and employment. International trade flows continue to consist predominantly of goods, corroborating the conventional perception of services being less transportable and tradeable than goods. For instance, while accounting for some four-fifths of domestic production, the United States' services sector currently contributes no more than one-fourth of total U.S. exports. (The share in imports is one-sixth.) Overall, according to balance-of-payments statistics, the share of services in total world trade is in the order of one-fifth. In absolute terms, this represented some US\$1,200 billion in 1995, which was about twice the value of total world trade in office machines and telecom equipment.

5. Conventional trade statistics, on a balance-of-payments basis, heavily understate the economic stakes involved. First, they do not cover services incorporated in goods, such as design or technical expertise. Second, data on cross-border flows do not capture a critically important mode of services trade, namely production and sales through affiliates abroad. (Hotel and fast-food chains, tour operators, consultants, banks and insurance companies, credit-card operators, etc.) Using a wider definition including such supplies, services prove far more "tradable" than conventional accounting may suggest.

B. THE CASE FOR MARKET LIBERALIZATION

6. From an economic perspective, there is no difference in principle between the production of goods and services. Both are governed by similar sets of objectives, incentives and constraints. In both cases, the genuine economic task of a firm consists of employing and co-ordinating the use of production factors - capital, labour and technology - with a view to satisfying the demand of potential customers, domestic or foreign. The firm's profitability and, thus, its potential for survival and growth is determined by its capacity to anticipate, and respond to, demand and supply factors such as wages, capital cost, input prices and the market conditions for the final product.

7. In a market economy, private profitability considerations are the driving force in determining the allocation of production within and between firms, sectors and countries. Open markets are expected to encourage quality improvement and product and process innovation; reduce the scope for waste and rent-seeking; constrain the economic power of any individual actor; and ensure users of the continued availability of the relevant goods and services. Market-based structural change is thus helping to promote an optimal balance, from a user's perspective, between product quality, product variety and price. At the same time, the possibility of drawing on alternative sources of supply reduces the risk of economic shocks and disturbances. What does this imply for the orientation and conduct of economic policies?

C. POLICY IMPLICATIONS

8. The focus of market-based policies is on creating and improving the institutional framework for private decision-making. In this context, emphasis is placed on ensuring competitive conditions on factor and product markets, enhancing transparency, removing entry barriers and price distortions, and avoiding divergences between private and social efficiency considerations. Appropriate initiatives might thus include, depending on the actual situation in a sector and country, (a) pro-competitive policy initiatives to abolish, for example, traditional exclusivity rights and access barriers; (b) external market opening to confront domestic industries with best international practice; (c) information requirements and, in sensitive areas, prudential rules to protect public interests; (d) institutional reforms providing for independent regulatory supervision; and (e) measures to incorporate social costs, attributable to environmental impacts and other externalities, in production and investment decisions.

9. While such policy initiatives are likely to benefit any sector of economic activity, it may be argued that they tend to be more urgent and, at the same time, more challenging and promising in key services industries. The need for, and the potential benefits of, institutional reforms in services sectors are underscored by the following considerations:

- The traditional framework of administrative regulation and control in many services areas, intended to ensure reliability and stability of supplies, is ill-suited to an environment characterised by rapid technological and economic change.

The quantity of investment and the expertise required to up-grade and operate modern services sectors, like telecom, may go well beyond what government bureaucracies are normally prepared to handle. At the same time, empirical evidence suggests that early liberalisation can contribute substantially to a country's locational attractiveness for new investment in modern services *industries*.

- Large services sectors have long been tightly regulated, suggesting that the potential for liberalisation, and the ensuing economic benefits, are particularly high.

In many countries, liberalisation and deregulation initiatives have initially eluded services, reflecting the operation of long entrenched public monopolies (e.g. in basic telecommunications, insurance, retail banking and rail transport) and the traditional view of services as being less transportable and tradable - and thus less amenable to trade liberalisation than goods. However, this view has been confounded by regulatory and technical developments (e.g. the emergence of satellite communications and electronic banking) and the attendant reduction of both policy-induced and technological barriers to competition and trade.

- In the absence of market-driven reforms, the secular expansion of many services sectors in the development process would gradually broaden government regulation and control.

Demand and supply shifts benefiting sectors such as financial services, telecommunications or air transport would expand, if current regimes were maintained, the reach of regulatory control over production and employment in an economy.

- Given the infrastructural nature of many services sectors, efficiency enhancing reforms including regulatory and institutional changes - are likely to promote the competitiveness of many downstream activities and, thus, improve overall economic performance.

From that perspective, services liberalisation would not be viewed as a concession to other countries, but a precondition for enhancing domestic industrial performance. The inclusion of services into the mainstream of the multilateral system, in the Uruguay Round, enables governments to lock in such reforms in an international context and, thus, protect them from slippage and reversals.

10. In many cases, a distinction between international and domestic liberalisation would be artificial. From a trade policy perspective, external and internal market opening should normally go hand in hand in order to ensure that the potential benefits of more liberal access conditions are not contravened by persisting internal barriers. This is also reflected in the scope of market access commitments assumed by WTO Members under the GATS. The disciplines of Article XVI extend to both discriminatory and non-discriminatory restrictions, covering measures targeted specifically against foreign suppliers as well as others affecting all market participants.

D. ADJUSTMENT-RELATED COSTS AND BENEFITS

11. Adjustment is at the core of a market system, and adjustment is not without cost. While economic policies may aim to improve the conditions for investment and growth - through infrastructural improvement, tax and tariff reform, and prudent macroeconomic management - they can not reasonably guarantee prosperity without pain. Governments thus tend to be confronted with demands for protection, in particular if large and well-organized sectors come under pressure.

12. Most obvious, from a social policy perspective, are the costs associated with labour displacement, the depreciation of skills, the need for professional re-training and, possibly regional relocation. Although there may be a case for government assistance to facilitate adjustment, it is doubtful whether such costs could justify initiatives to suspend market signals and slow down or prevent structural change. First, adjustment processes tend to be temporary in nature and any ensuing losses would need to be set against future income flows. Second, from an economy-wide perspective, such losses should be compared with the consequences of non-adjustment and the dynamic costs inflicted on taxpayers, consumers and/or user industries. Governments would also need to contemplate the possibility, if one sector is shielded from market forces, that this might serve as a precedent for many others. Sectoral protection can prove extremely contagious.

13. It may be argued with some justification, however, that the direct social consequences of adjustment are less serious in many services sectors than in traditional mining and manufacturing industries or in agriculture. Consider the following hypotheses:

- Adjustments in services industries, such as banking, insurance or telecommunications, generally occur within a dynamic sectoral environment, where expanding segments rapidly offer employment alternatives for redundancies in shrinking areas.
- Owing to a lower degree of sector-specific professional specialisation, service sector employees tend to be more mobile in general than, for example, miners or farmers.
- Professionals in some traditionally protected services areas - such as air transport or legal services - are not normally at the bottom of the national income league and, thus, may have more scope for "concessions" than workers in sunset manufacturing industries.

Moreover, it is worth recalling that liberalisation-induced adjustment is likely to generate significant dividends, in terms of overall economic performance, given the infrastructural nature of many modern services sectors. Potential "losers" will find it easier to re-position themselves within a dynamic economy generating favourable income and employment opportunities than in a stagnant system defying change.

14. The key role played by telecommunications, banking and other services in a modern-day economy is not without risks. Technical or financial disturbances emanating from these sectors may have profound economy-wide implications. It would be next to impossible, for example, to shield even the smallest producer in a remote region from the shockwave of a larger bank crash. Similarly, the interruption of transport and telecommunication links could, within a very short time period, bring any economic activity to a halt. In turn, such risks have inspired the enactment of myriad regulatory constraints - capital adequacy and asset quality requirements, telecommunications technical standards and the like - intended to ensure the continued availability of core technical and commercial services.

15. There is nothing in the GATS - or in the GATT - that would oblige governments to sacrifice any reasonable level of technical or commercial regulation. The GATS imposes constraints, however, on the use of unnecessarily restrictive or discriminatory requirements in scheduled sectors. Governments may thus be required to complement market-opening measures with a review of domestic regulation. The ensuing reforms may imply political costs, in particular if the income interests of well-defined producer groups are at stake, but should not normally result in lower levels of consumer or creditor protection.

16. Considerable research has been done in recent years to verify whether and under what conditions such expectations materialise. The following Bibliography provides an overview of publications issued since 1990. Its sector and country focus has been determined exclusively by the availability of published material and does not reflect any *a priori* selection by the Secretariat. ▲

- Deregulation of the insurance supervision has resulted in appreciable price decrease in Western Europe since 1994 and in Japan since 1998.
- The soft market, i.e. the low price phase which has come about in the last five years on the back of capital inflows into insurance industry and the stock market rallies in the US and Europe, has sent prices spiraling downwards across the globe to an unsatisfactory level especially in commercial insurance. A marked increase in premium rates will be therefore unavoidable.

Developments in 1999, broken down by region, show that premiums in North America and Europe expanded at a rate that was above the average of the previous ten years, while the emerging markets generally developed at a slower pace than the long-term trend. The positive developments in North America and Europe can wholly be attributed to the boom in life insurance. Japan, in contrast, had to contend with a renewed setback. The reasons for this are to be found not only in economic stagnation, but also in declining consumer Confidence triggered by insolvencies and the reduction in the guaranteed interest rate.

Non-life business in the industrialized countries recovered slightly relative to the preceding year, but only in Europe it was able to keep pace with the 2% economic growth. The stagnation in Europe witnessed over the past few years appears to have bottomed out. The differences between the individual countries should not be overlooked. However: the three biggest markets in Western Europe, the UK, Germany and France, languished while business in the remaining countries expanded by up to 13%. North America's non-life business did not develop in line with the booming economy, however, with an increase of 1.3%, remained well behind GDP growth of +4.2%. In Japan, premiums declined for the third consecutive year on the back of sluggish GDP growth.

Although growth in the emerging markets since 1980 has been subject to greater fluctuations than in the industrialized countries, it has also been significantly higher (9.8% compared to 4.9%). In 1999, after reporting a record low of +0.9% in the previous year owing to the crises in Russia and Southeast Asia, growth rates in the emerging markets of 4.5% returned to the level recorded in the industrial countries. The increase remained below the average growth rate witnessed over the past ten years in both life and non-life business. In the emerging markets, the year under review was marked by recovery from the economic and financial crises in Asia and Russia. The most important and fastest growing markets in the region over the past twenty years have been South and East Asia, where more than half of 1999's premium volume in the emerging markets was generated. South Korea, which played by far the most important role, once again registered a decline in premium volume, albeit a smaller one than in 1998. The countries of Southeast Asia that were affected by the crisis reported only a slight recovery in premium growth in 1999. Latin America's insurance industry was weakened by economic stagnation in the wake of the devaluation of the real in Brazil, while Central and Eastern Europe experienced a genuine insurance boom in 1999.

In absolute terms, the industrialized countries continue to clearly dominate the global insurance market with a 91% share of premiums in life and non-life insurance business. This far exceeds their 15% share of the global population or 77% share of GDP.

The most important countries in the global insurance business are the US and Japan, which together generate more than 50% of premium income, followed by the four biggest Western European countries, the UK, Germany, France and Italy. The European Union accounts for 30% of global insurance premiums.

The significance of the insurance industry in the industrialized countries

In 1999, the industrialized countries spent an average of USD 2285 per capita on insurance, or 8.8% of their combined net domestic product. The Swiss made the largest outlays on insurance services in 1999, spending USD 4643 per capita. In Japan, USD 3103 per capita was spent in 1999 on life insurance alone, the highest amount of all countries. The front-runner in non-life business was Switzerland with USD 1729 per capita per annum. Measuring premiums as a percentage of GDP, the UK topped the league of industrialized countries, although in a global comparison it was exceeded by South Africa and South Korea.

North America

In 1999, non-life premium growth in the United States and Canada again lagged behind economic growth. Real premium growth in the US remained almost unchanged at 1.3% over 1.1% the previous year. This figure was thus clearly lower than gross domestic product growth, which was 4.2% in 1999 and 4.6% in 1998. Weak premium growth resulted in a further decline in insurance penetration to 4.3% of GDP, compared to 5.0% a decade ago. Overall market growth was supported by a moderate rise in personal lines business and an accelerated expansion in accident and health business. In commercial lines, however, the market continued to contract in real terms, and a sluggish rate of growth generally continued the trends of the past decade. Between 1989 and 1999, direct premium volume in the US stagnated in real terms, mainly as a result of the prevailing soft market and a move towards more self-insurance and alternative risk transfer solutions (ART). With a share of 44% of global non-life premiums, the US remained the largest non-life market in 1999.

Premium volume in life business grew by more than 8% in real terms in 1999, both in the US and in Canada. The factors promoting annuities growth included a booming stock market, growing pessimism over the adequacy of the government retirement programme, a growing awareness of the need for private pension provision, improved product designs and better distribution channels. The stormy development of group annuity insurance was reflected in the growing significance of defined-contribution pension plans among employer-sponsored private pension products. The strong US economy with its low unemployment rate also supported the growth in group-life insurance products. Furthermore, the average size of life policies has increased steadily since 1995, indicating that the sale of life products is becoming more concentrated on high-income customers seeking tax advantages.

Western Europe

In 1999, non-life insurance in Western Europe returned to growth, recording a premium volume increase of 1.7% in real terms. On the one hand, the phase of falling prices on the back of deregulation seemed to bottom out and, on the other, attractive economic growth in 1999 it was a good 2% stimulated insurance demand. Mainly recovery in the medium sized non-life markets Italy (5.2%) and Spain (+9.1%) boosted regional growth. The large and habitually saturated markets of Germany and France made only small contributions to growth (each +10/a), whilst the UK posted a negative result (-1.1%).. High premium growth in Ireland and Sweden (+9.20/s and +4.9%, respectively) was boosted principally by strong economic growth of 4% and above.

The trend towards strong real premium growth in life insurance of more than 10% per annum, which dates back to 1996, continued unabated in Western Europe in 1999. The reasons for this were the reform of state pension schemes and a move towards insurance products for company pension funds. Index-linked policies were the main benefactors of this shift; in some countries their growth was explosive (+129% in Italy). In addition, there were changes to the tax status of life insurance policies and the way in which pension funds are supervised. In Spain, for example, company pension funds are obligated to have their assets managed by banks or insurance companies. Furthermore, the preferential tax status afforded to life insurance was reaffirmed. In a whole host of Western European countries, namely Portugal, Spain, Sweden, Italy and Greece, the volume of life insurance increased its real terms by a remarkable 30% in 1999. The large rise in life premiums in Western Europe, averaging 16.0% in 1999, was also boosted by the three largest countries, the UK (+19.3%), France (+14.5%) and Germany (+11.3%).

Significance of the insurance industry in the emerging markets

Insurance density (premiums per capita) is markedly lower in most emerging markets compared to industrialized countries, being around USD 40 on average. There are, nevertheless, great differences between the markets, with premiums per capita at between USD 100 to 400 in half of the countries. Hong Kong, Israel, South Korea and Singapore constitute exception amongst the emerging markets. These four countries record premium expenditure of over USD 1000 per capita and are thus comparable to industrialized countries.

Taking into account the fact that incomes in emerging markets are much lower than in the industrialized countries, the insurance industry still shows only a rudimentary stage of development. Expenditure for insurance services expressed as a percentage of income (insurance density) is significantly lower than in the industrialized countries: amounting in 1999 to 2.9% of GDP on average (8.8% in the industrialized countries). However, the two countries with the worlds highest levels of insurance penetration, namely South Africa (16.5%) and South Korea (11.3%), are also to be found amongst the emerging regions. In both countries life insurance as a means of saving is particularly attractive when compared to bank deposits.

South and East Asia

The emerging insurance markets in Asia were only able to partially benefit from the economic recovery following the financial and currency crisis. In 1999 the South and East Asia region was largely forced to endure a continued albeit somewhat weakened fall in non-life premiums, with the effects of the economic crisis still in evidence. Altogether, growth of 3.3% was recorded. Due to the stabilized key economic factors and the regeneration of insurance, the sectors general situation improved towards the end of the year. The resumption of infrastructure projects, which had previously been postponed, together with growth in private client business, such as motor and liability, helped to stimulate non-life business. Non-life premiums in China, Hong Kong and Taiwan generally mirrored the economic growth in these areas. There was consequently strong growth in Taiwan and China (+ 16.2% and +5.8% respectively), whereas Hong Kong recorded a fall of 1.8%. Fierce price competition continued to limit premium growth in all three markets. In South Korea, non-life premiums remained largely unchanged in spite of economic growth of over 10% in 1999.

Premium volumes in Southeast Asia s life business largely recovered in 1999, especially in Singapore and Indonesia. One of the reasons for this was the increased awareness of the need for insurance cover following the financial crisis. The upward trend

was given additional impetus by the stabilization of Asian currencies and the recovery of private household incomes. Nonetheless, there are still insurers with insufficient capital reserves who have not yet fully recovered from the economic crisis. Together with the increased authority of the state in insurance supervision, whose central interest focuses on companies solvency, and the greater demands on companies regarding equity requirements, these factors will, in the near future, become an important catalyst in the consolidation of the market. In life business in China, Hong Kong and Taiwan, both China and Taiwan recorded double-digit growth rates (+18.3% and +12.6% respectively), Hong Kong was higher (+28.6%) due to many new representatives. In South Korea, life business in 1999 once more fell by 11

Middle East and Central Asia

The Middle East economies were able to benefit from increasing oil prices in 1999 with growth in the Gulf States increasing markedly. In Israel, by contrast, the recovery did not take hold until 2000. The differing levels of economic growth were reflected in premium growth in non-life business: Israel, the biggest national market, stagnated (-0.6%), and suffering, like Western countries, from falling premium rates. By contrast, Iran, the region's second biggest market, was able to record strong growth (25.2%), compared to an average in the region of 5.2%.

Life insurance in the region, 60% of which is concluded in Israel, grew at a rate of barely 3%. This growth could be attributed to the strong increase in Iran (+12.5%) and Kuwait (+5.3%). In Israel, by contrast, growth remained below the population growth at a level of 1.9%. For religious reasons, life as well as non-life insurance is not widespread in Arab countries. Motor insurance, for example, is not compulsory in many countries and life insurance is even banned in some such as Qatar. Even compared with other emerging markets, insurance penetration (premiums as a percentage of GDP) is exceptionally low at 1.6%.

Africa

Real growth in African insurance premiums was generally positive in 1999, whereby significant differences existed between life and non-life business. Whereas premiums in the life sector increased by 8.2%, they fell in the non-life sector by 1.9%. In non-life business South Africa accounted for more than half of the region's premiums. Interim figures indicate that there was a real decline in premiums of 2% in South Africa in 1999, which, in combination with the devaluation of the rand, reduced premiums by 7% in terms of USD. The reason for this fall was mainly due to the strong competition in this market. In other countries too, such as Libya and Mauritius. Premiums fell in real terms in 1999. By contrast, premiums increased in Algeria, Egypt, Kenya, Morocco and Tunisia.

In the life sector, developments were determined almost exclusively by South Africa, which was responsible for some 95% of the region's premium volume. This share has remained constant over recent years. According to interim figures there has been a strong increase in South Africa in pure savings products (sinking funds). This led to life premium growth of almost 8% in real terms. Although real growth rates of some countries are far above those of South Africa particularly Morocco (18.8%) and Egypt (+17.7%). These markets are relatively small and their strong growth is balanced out to some extent by falling premium volumes in other countries such as Algeria (-7.00%) and Libya (-17.4%) in 1999.

Development of Written Premium in Arab Markets from 1997-1999

	In US\$ Millions		
	97	98	99
United Arab Emirates	654	741	815
Saudi Arabia	763	793	781
Lebanon	426	450	478
Syria	334	353	264
Kuwait	203	199	196
Oman	145	167	168
Qatar	155	150	153
Morocco	860	935	973
Egypt	538	539	579
Tunisia	310	317	331
Algeria	266	272	257
Libya	210	215	158
Other Arab Countries	663	700	736
Total	5526	5831	5889

Insurance Density in Key Arab Markets Per Capita since 1997-1999

	<i>In US\$</i>		
	97	98	99
United Arab Emirates	253.3	254	310.1
Saudi Arabia	39.9	39.1	38.1
Lebanon	133.8	141	111.9
Syria	22	23	16.6
Kuwait	112	97.8	93.6
Oman	62	58.5	66
Qatar	263.4	272	259.4
Morocco	29.9	34	34.4
Egypt	8.2	8.5	9.1
Tunisia	32.6	35.4	35.1
Algeria	9	9.1	8.1

**Insurance Penetration in Key Arab Markets : Insurance Premium
as Percentage of GNP From 1997 1999**

	97	98	99
United Arab Emirates	1.44	1.43	1.49
Saudi Arabia	0.53	0.52	0.56
Lebanon	3.32	2.69	2.61
Syria	0.52	0.52	0.47
Kuwait	0.67	0.79	0.66
Oman	0.87	0.87	1.07
Qatar	1.69	1.66	1.54
Morocco	2.44	2.6	2.78
Egypt	0.67	0.65	0.65
Tunisia	1.58	1.65	1.57
Algeria	0.55	0.54	0.62
Libya	0.28	0.23	0.47

**Large Losses Do Happen
What can be done to prevent them**

Report by: - GeneralCologne Re

A substantial number of large property losses occurred industry-wide during 1999.

GeneralCologne Re undertook a study to determine if there were any common issues that contributed to making these losses larger than would be expected our Lessons from Losses. The study required that we identify 1999s large property losses and collect as many facts about the losses as possible.

For this study, we defined a large loss to be any single loss that caused insured damage over U.S.\$25 million. The list includes those losses caused by earth-quake, wind or flood if the individual loss to any insured is larger than U.S.\$25 million, but excludes large catastrophe losses such as the Sydney Hailstorm or the Turkish Earthquake.

Lessons from Losses

Our study revealed that several of 1999 s large losses grew to become larger than expected due to one of the following three underwriting issues:

1. Older plants & facilities

They rely on old technology, present substantial exposures in the area of Replacement Cost, Demolition and Increased Cost of Construction, Law and Ordinance, Contingent Business Interruption, and Extended Period of Indemnity. Correct Values, Policy Contract wording, and sub-limits, in these critical areas can make the difference between normal loss expectancy, or millions more for unintended coverage.

2. Insurance to value

This continues to be a problem, in particular in the Business Income (BI) area. In this period of substantial growth companies can take on new production quickly from outsourcing by others, acquisition or simply product growth. The necessity to obtain, understand and analyze BI worksheets, sales trends, and other financial data is key to evaluating this critical area of coverage. The extended period of indemnity can add millions to a BI loss and needs to be thought through based on

having reliable financial data.

3. To help minimize the BI loss

The Claim Departments of insurers, and independent adjusters handling large property losses with emphasis in the area of Machinery & Equipment, should develop the capability or resources to identify replacement, stand-by or spare equipment in the event of a loss. Having the ability to identify and expedite the delivery and installation of critical production equipment can lead to substantial savings on Business Income.

The following Large Loss Listing was compiled by GeneralCologne Re to provide summary information about large property over \$ 25 Million in 1999.

Loss Date	Occupancy	Country	Cause	Estimated Loss Amount
February	Power Utility/Vs	USA	Boiler Explosion	650
March	Petrochemical	USA	Explosion	340
February	Power Utility	USA	Boiler Explosion	200
July	Aluminium Smelter	USA	Explosion	200
March	Electronics	Japan	Fire	186
April	Transformer Mfr	UK	Fire	137
August	Tyre Manufacturer	Italy	Fire	105
August	Petrochemical	Turkey	Fire/EQ	105
July	Construction	USA	Crane Collapse	100
June	Chemical Mfr	Germany	Explosion	100
August	Chemical Mfr	Germany	Explosion	90
September	Semiconductors	Taiwan	EQ	85
March	Dairy	USA	Ammonia Explosion	83
October	Turkey_Processor	Germany	Fire	80
May	Petrochemical	Korea	Explosion	80
June	Warehouse	UK	Fire	75
February	Petrochemical	USA	Explosion	71
October	Chemical/Pharm	Germany	Fire	70
August	Electronics	Japan	Fire	68
August	Tyre Manufacturer	Turkey	EQ	65
November	University	UK	Burst Pipes	57
June	Primary Metals	Canada	Explosion	57
August	Paper Manufacturer	Holland	Fire	57
March	Electronics	Mexico	Fire	54
October	Railways	UK	Train Collision	53
September	Semiconductors	Taiwan	EQ	52
August	Polyethylene Plant	Poland	Fire	50
December	Computer Mfr	Italy	Fire	50
March	Tunnel	Italy/France	Fire	50
September	Paper Manufacturer	USA	Wind Driven Water	50
February	Paper Manufacturer	Germany	Technical Failure	50
November	Power Plant	Italy	Explosion	50
July	Shellfish Processor	UK	Fire	48
July	Poultry Processing	UK	Fire	40
November	Poultry Processing	UK	Fire	40

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