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OPENING ADDRESS BY DR RICHARD HU, MINISTER FOR FINANCE AND
CHAIRMAN, MONETARY AUTHORITY OF SINGAPORE (MAS),
AT THE 18TH ASEAN INSURANCE COMMISSIONERS' MEETING
AT SHANGRI-LA HOTEL ON TUESDAY, 13 OCTOBER 1992 AT 9.30 AM

I am very happy to be here this morning to officiate the opening of the 18th Meeting of the ASEAN Insurance Commissioners. I would like to bid a warm welcome to the ASEAN Insurance Commissioners and their delegations as well as members of the ASEAN Insurance Council.

This is the second time that I have had the pleasure of officiating the opening of the ASEAN Insurance Commissioners' Meeting, the first time being in 1987 when Singapore last hosted the Meeting. This Meeting is being held at a very special time for ASEAN as it celebrates its Silver Anniversary. During the past quarter century, ASEAN has established itself as a credible and respected regional political alignment.

Nevertheless, great challenges remain for its member countries, intensifying the need for cooperation. This morning, I would like to discuss recent global developments which raise serious questions for ASEAN. In doing so, I will focus on two main areas, namely, in the general economic arena and, of course, in insurance.

Immediate Prospects for World Economy

I would first like to discuss briefly the immediate prospects for the global economy which is understandably a subject of great concern to many people.

The world economy grew by less than one per cent in 1991 as many major economies suffered either recession or a slowdown in growth. The prospects for 1992 remain unencouraging with the International Monetary Fund predicting a rather restrained recovery in the industrialised nations. In particular, the

economy of the United States has so far shown a weak and patchy recovery from the recession of 1991, hamstrung to a large extent by the huge build-up of corporate and household debt incurred during the boom years of the 1980s. In Europe, which has recently been beset by a currency crisis due to pressure on its Exchange Rate Mechanism, Germany's growth is expected to be constrained by its tight monetary policy. In addition, a recovery in the British economy remains elusive. Asia's major economy, Japan, is also facing weak economic conditions for 1992, so much so that its Government announced a US\$87 billion fiscal package in August in an attempt to alleviate the situation.

Immediate Prospects for ASEAN Economies

Despite the gloomy outlook in the developed economies, the immediate prospects for the ASEAN economies look bright. While being adversely affected by several factors, principally, reduced foreign investment inflows, infrastructural bottlenecks as well as government policy measures to control overheating, the average growth rate of the ASEAN economies in 1992 is not expected to fall far short of 1991's robust rate of about 6.5 percent.

Future Challenges to ASEAN Economies

However, it would be a mistake to take our current economic buoyancy for granted. Changes taking place globally pose important questions to the rapidly-growing economies of East Asia, including ASEAN.

In this regard, one of the most important issues facing the export-dependent economies of this region is the real possibility of changes to the existing world trading order organised under the General Agreement on Tariffs and Trade, or GATT. GATT has significantly benefited economies such as those in ASEAN by facilitating a rapid expansion in world trade. There is, however, pessimism about whether the current Uruguay Round of negotiations for a new GATT Agreement can be successfully concluded. The emergence of regional trade groupings in North America and Europe has added a new dimension to an already

complex equation. The emergence of these trade groupings, such as the North American Free Trade Agreement and the Single European Market, will almost certainly pose greater competition for the ASEAN countries in the future.

ASEAN's initial reaction to these developments has been commendably pragmatic. The Fourth ASEAN Summit held earlier this year in Singapore agreed to press ahead with the formation of the ASEAN Free Trade Area or AFTA. AFTA aims to create a free market of over 300 million people within 15 years, starting next year. It is a necessary development in light of the current climate and would, in the long run, enhance the competitiveness of the ASEAN nations.

However, AFTA is only the first step on the road to effective ASEAN economic cooperation. ASEAN must remain flexible and alert to anticipate and react to global economic developments. It is also vital that ASEAN continue its efforts to help ensure the satisfactory conclusion of the GATT Uruguay Round negotiations in order to maintain effective multilateral safeguards against protectionism.

ASEAN Insurance Cooperation

I will now turn to issues in ASEAN insurance cooperation which forms an important subset of ASEAN economic cooperation, and which is obviously of direct interest to the Insurance Commissioners and practitioners gathered here.

The ASEAN Insurance Commissioners have made impressive strides since 1975 when they first met in Manila. The Meetings have helped develop close ties among the insurance supervisors and have provided an excellent forum for the exchange of supervisory and other relevant information. In addition, several substantive projects have been successfully implemented; these include the collection of statistics on insurance development and mortality experience of assured lives in the region, training programmes for supervisory staff as well as joint study missions to more advanced insurance centres.

The Commissioners have also developed an excellent rapport with the private-sector Asean Insurance Council. This has facilitated private-sector initiatives such as the establishment of the ASEAN Reinsurance Corporation or ASEAN Re in 1989, which is aimed at increasing the collective capacity of the ASEAN insurance industry. While the business volume of ASEAN Re remains modest, I understand that it is looking at avenues to expand its activities. An example is the recent launching of the Oil and Gas Facility, which is a logical move given that most of the ASEAN countries are oil and gas producers and that, currently, the bulk of the insurance premiums from this business flow out of the region.

I am also informed that the Council has been examining other means to catalyse insurance cooperation. It has even set up a Task Force to look into this matter.

Challenges for ASEAN Insurance Regulators and Practitioners

While the efforts of the ASEAN Insurance Commissioners and ASEAN Insurance Council show commendable dynamism, great challenges loom ahead as the shape of the global insurance industry changes. I am especially concerned with the unprecedented instability in the international insurance scene. The current problems afflicting the insurance industry world-wide are partly caused by the worsening in loss experience, due largely to an unprecedented spate of natural and man-made catastrophes. In addition, insurers themselves have been guilty of unsound practices such as imprudent underwriting, investment and reserving. Finally, the sheer level of competition currently existing in international insurance business has pushed premiums rates down to uneconomic levels. These developments provide ASEAN regulators and insurers, alike, with much to think about. It would be imprudent to assume that such adverse conditions cannot occur in the ASEAN markets.

i) Regulatory

For ASEAN insurance regulators, there is therefore a heightened need to be more vigilant and nimble in discharging their duties. In this regard, the role of the Annual Meetings

of the ASEAN Insurance Commissioners as a forum for discussion on areas of mutual regulatory concern has assumed even greater importance.

On Singapore's part, we have introduced a package of new measures to enhance the financial positions of our insurers. Last year's Meeting was informed of Singapore's intention to introduce measures controlling investment of insurers' Singapore Insurance Fund assets as well as enhanced solvency margins for general insurers, both of which will be effective from 31 December 1992.

I would like to take this opportunity to announce that we have also, after consultation with the life insurance industry, come up with minimum solvency margins for life insurance companies, effective from 31 December 1992.

In addition, we have also decided to introduce the concept of the Appointed Actuary for life insurance business with effect from 1 January 1994. The measure, which is already in place in the United Kingdom and Canada, is designed to significantly expand the traditionally narrow role of the actuary to include new responsibilities such as recommending prudent investment strategies and assessing the adequacy of capital to support new business growth.

We also believe that in light of the increasing globalisation of insurance markets world-wide, which implies a growing tendency for events in one market to impact on another, there is a heightened need for more formalised international cooperation amongst insurance regulators. In this regard, Singapore supports the recent decision of the Seventh International Conference of Insurance Regulatory Officials held in Washington D.C. to establish the International Association of Insurance Supervisors. I am particularly heartened by the fact that the majority of the other ASEAN insurance regulators have also indicated their in-principle support for the Association. I understand that the Association, which is expected to be formally established soon and which has the support of most

developed countries, will initially act as a forum for insurance regulators to exchange information and experiences. This first step, while modest in its scope, nevertheless represents an important initial response to regulatory issues brought to the fore by the globalisation of insurance business. As the Association matures, one foresees that it would be able to take on altogether more complex issues such as formulating minimum global prudential standards.

ii) Private Sector

Just as the current difficult international insurance environment poses challenges for ASEAN regulators, ASEAN insurers, too, face serious long-term questions. In particular, the relatively small and immature ASEAN insurance industry must think of ways and means of improving its competitive position in the face of increasingly more difficult business conditions. The current efforts of the ASEAN Insurance Council represent a good approach to this question by emphasising the benefits of regional cooperation. However, ASEAN insurers must be prepared to adopt a more radical response to this challenge.

For example, ASEAN insurers can learn from the strategy currently employed by many European insurers who are busy beefing-up their positions through cooperative link-ups among themselves. This idea was originally proposed in 1990 by a local insurance practitioner who called for ASEAN insurers to consider similar strategies through equity tie-ups or other synergistic links among themselves. Of course, such strategies must be pursued on a commercially sound basis. This could, amongst other things, bring about the enhancement of insurers' capitalisation and their scope of business, as well as facilitate the transfer of skills and technology.

Conclusion

I would like to conclude my speech on this note. I hope I have been able to provide some food for thought at this significant milestone in the history of ASEAN. I am confident that your deliberations and decisions at this Meeting will contribute significantly to the momentum that ASEAN cooperation

has built up.

It now gives me great pleasure to declare open the 18th Meeting of the ASEAN Insurance Commissioners. May I wish our ASEAN guests a fruitful and pleasant stay in Singapore.

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